Nigeria: Macroeconomic Assessment and Agenda for Reforms

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USAID/NIGERIA MACROECONOMIC ASSESSMENT CONTRACT

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Abbreviations and Acronyms

ACGSF – Agricultural Credit Guarantee Scheme Fund

ADP – Agricultural Development Programme

ADR – Alternative Dispute Resolution

AML – Anti-Money Laundering

APMEU – Agricultural Projects Monitoring and Evaluation Unit

ASYCUDA – Automated Systems for Customs Data Entry and Control

ATLE – Africa's Ten Largest Economies

BMPI – Budget Monitoring and Price Intelligence Unit

CAC – Corporate Affairs Commission

CRF – Clean Report of Findings

DAS – Dutch Auction System

DMO – Debt Management Office

DFFRI – Directorate for Food, Roads and Rural Infrastructure

ECGA – Export Credit Guarantee Agencies

ECOWAS – Economic Community of West African States

EEG – Export Expansion Grants

EPZ – Export Processing Zone

FACU – Federal Agricultural Coordinating Unit

FDI – Foreign Direct Investment

FEAP – Family Economic Advancement Programme

FIRS – Federal Inland Revenue Service

FOB – Free on Board

FOS – Federal Office of Statistics

FSSA – Financial System Stability Assessment

GDI – Gender related Development Index

GEM – Gender Empowerment Index

GDP – Gross Domestic Product

HDI – Human Development Index

ICC – International Chamber of Commerce

IDIB – Industrial and Insurance Brokers

IDR - Import Duty Report

IFEM – Inter-Bank Foreign Exchange Market

IMF – International Monetary Fund

IPR –Intellectual Property Rights

LDC – Least Developed Countries

LECON – Leasing Company of Nigeria

LGA – Local Government Authority

LNG – Liquefied Natural Gas

MAN – Manufacturers Association of Nigeria

mbd – million barrels per day

MDG – Millennium Development Goals

MFN – Most Favored Nation

MIB – Manufacturing in Bond

NACB – Nigeria Agricultural and Cooperative Bank

NACRDB – Nigerian Agricultural and Cooperative and Rural Development Bank

NAFDAC – National Agency for Food and Drug Administration and Control

NAFFPP – National Accelerated Food Production Programme

NALDA - National Agricultural Land Development Authority

NAPEP – National Poverty Eradication Programme

NBCI – Nigerian Bank for Commerce and Industry

NEPA – National Electric Power Authority

NEPAD – New Economic Partnership for Africa Development

NEXIM – Nigeria Export Import Bank

NIDB – Nigeria Industrial Development Bank

NIPC – Nigeria Investment Promotion Commission

NITEL – Nigeria Telecommunications Limited

NLC – Nigeria Labour Congress

NNPC - Nigeria National Petroleum Corporation

NTB – Non-tariff Barriers

ODA – Official Development Assistance

OPEC – Organization of petroleum Exporting Countries

ORT – Oral Rehydration Therapy

PAPDC – Poverty Alleviation Programme Development Committee

PAYE – Pay As You Earn

PBN – People's Bank of Nigeria

PCU – Projects Coordinating Unit

PRSP - Poverty Reduction Strategy Process/paper

PSI – Pre-Shipment Inspection

PTF – Petroleum Trust Fund

R&D – Research and Development

RER – Real Exchange Rate

RIL – Research-to-industry Linkage

RMAFC – Revenue Mobilization, Allocation and Fiscal Commission

RPED – Regional Programme on Enterprise Development

SAP – Structural Adjustment Programme

SBA – Stand-by Agreements

SDR – Special Drawing Rights

SGR – Strategic Grain Reserve

SME – Small and Medium Scale Enterprises

SMIDA – Small and Medium Scale Industrial Development Agency

SMIEIS – Small and Medium Industries Equity Investment Scheme

SON – Standards Organization of Nigeria

TBA – Traditional Birth Attendants

TFP - Total Factor Productivity

TRIPs – Trade Related Intellectual Property Rights

UBE – Universal Basic Education

UEMOA – Union Economique et Monetaire l'Ouest Afrique

UNDP – United Nations Development Programme

UNICEF – United Nations International Children Emergency Fund

UNIDO – United Nations Industrial Development Organization

UPE – Universal Primary Education
US AGOA – United States African Growth and Opportunity Act

WTO – World Trade Organization

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EXECUTIVE SUMMARY

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BY

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MACROECONOMIC ASSESSMENT AND AGENDA FOR GOVERNMENT AND DONOR INTERVENTIONS

EXECUTIVE SUMMARY

This assessment Report is based on the premise that the Government of Nigeria needs help to meet the challenge of initiating an inclusive rapid growth with social-structural transformation--- to strategize, prioritize, and to manage its own resources better. But such must be predicated on sound analysis and evaluation of the state of the economy. This Report provides an assessment of the macro economy, with a view to highlighting some key pressure points for strategic intervention. The full report (about 190 pages) is organized in five key parts as follows: After the Introduction and methodology in Section I, Section II provides a general assessment of the structure and performance of the macro-economy in terms of output, income, expenditure, and policy thrusts. In Section III, the microeconomic perspectives, especially in relation to the competitiveness of key sectors of the economy, are provided. Section IV assesses the nature, severity and responses so far to the poverty challenge and decay of the social sector. Section V evaluates the prospects for the medium term, and offers some broad recommendations for possible Government policy actions as well as programmatic interventions by donors. This Executive Summary provides a skeletal overview of the key messages, and is organized in five sections: Section I presents the Introduction and Methodology of the Report; in Section II the summary of findings is presented. Section III examines the Medium term growth prospects and requirements for growth, while Section IV outlines the summary agenda for growth and competitiveness. Section V concludes by examining the possible programmatic areas for donor intervention and suggestions for effective aid delivery mechanism.

1: Introduction

Nigeria has the potential to become Sub-Saharan Africa's largest economy and a major player in the global economy by virtue of its rich human and material resource endowment. But much of its potentials (see Box 1.1) have remained untapped, and if current trends continue, Nigeria runs the risk of not meeting the internationally agreed Millennium Development Goals by 2015.

Nigeria's economic landscape especially since the oil boom of mid 1970s has become the textbook example of Africa's economic growth and development tragedy. Relative to its own history and in comparison with other countries (in Africa and Asia, especially Indonesia which is comparable to Nigeria in most respects) the economic development tragedy stands out. With a GDP of about $43 billion in 2001, the economy has shrunk to a third of its size in 1981, per capita income has shrunk from about $1150 in 1981 to barely $300 in 2001, and Nigeria is now one of the 20 poorest countries in the world. As at 2001, Nigeria had received approximately $300 billion from oil exports since the mid 1970s, but per capita income was 20% less than the 1975 level, and the country has become so heavily indebted (70% of GDP) that it has serious difficulty servicing existing debt. All major productive sectors have considerably shrunk in size since the 1980s. Poverty is deep, severe and pervasive, with about 70% of the population living below poverty line. Poverty is also becoming *dynastic* in Nigeria—with the threat that the children of the poor are also likely to end up poor. Income distribution is so skewed that the country is one of the most unequal societies in the world, with 50% of the population having only 8% of the national income. The economy remains highly de-capitalized and undercapitalized, uncompetitive and at a pre-industrial and pre-exporting stage. With an average annual investment rate of barely 10% of GDP, Nigeria is too far behind the minimum investment rate of about 30% of GDP required to unleash a poverty-reducing growth rate of about 7-8% per annum. Nigeria is not only very poor; it also experiences the worst forms of de-capitalization (human and financial). Because of the risky and unprofitable investment climate, private agents have chosen to keep the bulk of their assets abroad (with independent estimates of the stock of capital flight abroad at over $50 billion), and over one million Nigerians (mostly highly educated) have emigrated to Europe and the U.S. (brain drain). Most of the FDI into the country goes into the oil and extractive sectors. The economic structure remains highly undiversified, with oil accounting for 95% of exports, and manufacturing sector accounting for less than 1 percent of exports. Nigeria has been losing international market shares even in its traditional (agricultural) exports since the 1970s.

All these are the legacies of decades of dictatorial misrule and a myriad of self-inflicted constraints and policy errors. Government reputation has been badly damaged, and frequent policy reversals were major features of past governments. The country and its institutions so degenerated for decades that it has been consistently ranked number one or number two most corrupt country in the world by the Transparency International. Some of the other legacies of the past pertaining to investment and trade include very high, widely varying levels of protection across sectors, perverse incentive structure, no effective lock-in of policy and institutional reforms within a regional and global context, high transaction costs, risky, uncertain and unprofitable investment climate, import dependent and unproductive firms, and inexperience, as well as non-confidence among Nigerian businesses in their abilities to compete in international markets. Given path dependence, there is still a hysteresis of the past, and it would take extraordinary efforts to break out of the web of vicious circles into which Nigeria is currently mired.

The new administration of President Obasanjo was mindful of these challenges and expectations. It promised Nigerians in its *Obasanjo' Economic Direction 1999- 2003* (pp.8-9) to establish "one of the leading economies in Africa: an economy that experiences rapid and sustained growth at not less than 6-10% per annum at the end of the present Administration's tenure. The creation of a national economy that is highly competitive, responsive to incentives, private sector-led, broad-based, diversified, market-oriented and open, but based on internal momentum for its growth…is the goal". There is broad public-private sector consensus around this goal.

Economic performance in the past four years since 1999 has been a mixed grill of promise and disappointment as the new civilian government grapples with the daunting task of turning around an economy paralyzed by decades of mismanagement, corruption, and ethnic division. The challenges are not made easier by the immense expectations and pressure to deliver 'democracy dividends'. Verdicts on the government's economic performance seem to oscillate around the extremes. For some critics, the economy has done very badly relative to its potentials (resources and given that oil prices almost doubled during the period relative to the average for the 1990s) and even relative to the Government's own contract with Nigeria as contained in the targets set in the *Obasanjo's Economic Direction, 1999- 2003* (see Appendix Table 1 for overview of targets and actual performance).

On the other hand, even though the Federal Government has probably not met up to 50% of the targets it set for itself in its Economic Agenda, the Government scores its performance very high on the argument that it underestimated the extent of the decay and the time and resources needed to fix it. Whatever the interpretation of the performance, the fact is that Nigeria is set to miss the MDGs if current trends continue. The rate of economic growth required to prevent poverty from worsening is 5%, and about 7-8% required to significantly reduce poverty. But average growth rate in the last four years was about 3.3%, and hence poverty is worsening. Unemployment is threatening social stability and the cities are increasingly becoming unlivable due to violent crimes, the institutions of economic governance remain weak and inefficient, public service delivery is poor, Nigeria is still ranked a very corrupt country, etc. Thus, the challenges are still immense, and call for urgent actions.

The size and strategic importance of Nigeria in Africa (especially in West Africa) is such that the stakes are very high. Nigeria is the source of stability in the West African region--- having led a multilateral peacekeeping force to Liberia and Sierra Leone, and continuing peace-keeping role in the sub-region. On the economic front, Nigeria accounts for about 55 percent of the West African GDP. Thus, a vibrant and growing Nigerian economy will act as a strong growth pole for West and even Central Africa. Sub-Saharan Africa as a region cannot succeed in reducing poverty and it cannot reach the MDGs of 2015 unless Nigeria, with one-fifth of the African population, succeeds in its own economic development.

But Nigeria has enormous potentials and a window of opportunity to initiate and sustain a quantum leap forward (see Box 1.1). From all indications, Nigeria mimics a post-conflict economy, and better-managed African economies in similar situations—Uganda, Mozambique, Ghana, etc have sustained higher growth rates for a long period. The continuing consolidation of the democratic experiment offers an opportunity for constructive dialogue on how to move forward. Furthermore, there are tremendous opportunities waiting to be exploited---tremendous entrepreneurial abilities of Nigerians, goodwill of the international community; and opportunities offered by several bilateral and multilateral trading arrangements---Africa's NEPAD and ECOWAS integration, U.S.- AGOA, EU-ACP Cotonou Agreement, the impending Economic Partnership Agreement with the European Union, etc. All these require the unleashing of an investment boom and achieving production diversification/export competitiveness as the winning strategy for rapid growth, employment creation, and poverty reduction. The bigger task lies in articulating a coherent strategy and identifying internally-consistent set of instruments to achieve the broad goal. This is especially a daunting challenge in an environment with decades of crude import substitution industrialization, a dominant mind-set that is highly protectionist and with little capacity and constituency for aggressive reforms towards a competitive market economy.

Nigeria needs help. The Government needs help to meet the challenge of initiating an inclusive rapid growth with social-structural transformation--- to strategize, prioritize, and to manage its own resources better. But such must be predicated on sound analysis and evaluation of the state of the economy. This Report provides an assessment of the macro economy, with a view to highlighting some key pressure points for strategic intervention.

Methodology and organization of the Report

The approach used in the Report is descriptive but mostly analytical. Fundamentally, the approach provides an in-depth economistic assessment of the macro and micro aspects of the economy but complemented with an evaluation of the human development record. The emphasis on the human development balance sheet derives from the fact that the economy is ultimately about people and resources. Thus, no proper understanding of the economy and its future prospects can be made without a better understanding of the human development indicators--- human capital resources, poverty and inequality, gender issues, employment, and factors likely to hamper productivity such as the HIV/AIDS pandemic and exclusion/ suppression of productive groups such as women.

As much as possible, the analysis of the most recent developments (last five years) is done in comparative perspectives--- in comparison with the country's own historical trends but in some cases also with other African and developing country performances. The goal is to dramatize the distinguishing features of the economy and its management, as well as its key economic development challenges. The key questions to frame the discussions in each section include: where is Nigeria relative to where it needs to be?; why is it where it is?; what has been done in the past or being done currently to change the situation?; what are the lingering challenges, and a possible agenda for change?

The assessment is data intensive, and the data are from secondary sources. The macroeconomic data come from the publications of the Central Bank of Nigeria, Federal Office of Statistics, relevant ministries and government agencies, the World Bank's Global Development Indicators, the IMF's World Economic Outlook databank, International Financial Statistics; and from sundry publications as indicated in the references. The micro (sectoral and competitiveness) analysis relies heavily on firm level surveys such as the World Bank's RPED survey of the manufacturing sector in 2001 and the Private Sector Assessment Report; the UNIDO's competitiveness survey 2001 and the Report; surveys of the manufacturing, agriculture and other sectors by the Federal Office of Statistics; the Investor Road Map surveys; the FIAS survey of administrative barriers to business; the surveys and Reports by the Manufacturers Association of Nigeria; etc. The human development evaluation draws from the various poverty assessment survey results; the UNDP's Human Development Reports (global and Nigerian country reports); rural development assessment surveys; various surveys and reports by the Federal Office of Statistics on the social sector; etc. The latest data for most macroeconomic statistics are for 2001[1], and some of the illustrative tables and Boxes are in the Appendix.

The range of published materials and unpublished reports used in this Report are diverse, including those from the federal government, study reports and policy documents by donor and multilateral agencies, and publications and reports emanating from the private sector. The Government of Nigeria's various policy documents include the National Development Plans; National Rolling Plans; annual budgets; Vision 2010 documents; publications by the Central Bank of Nigeria, Ministry of Finance on the economy; specific sectoral policy documents such as those for trade; agriculture; industry; oil and gas; education; health; the Government's strategy paper for Consultative Group meetings with the Paris Club; draft Poverty reduction strategy paper (PRSP); Obasanjo's Economic Direction, 1999—2003; etc. The documents from donors and multilateral agencies include the various IMF Staff Reports for the Article IV Consultation; the World Bank's Country Assistance Strategy papers; various donor sectoral studies and strategies for Nigeria; etc. The private sector provides an assortment of sources, including the publications by the Manufacturers Association of Nigeria, the various summary reports of the annual Economic Summits by the Nigerian Economic Summit Group (NESG), annual conference proceedings of the Nigerian Economic Society (NES) on various aspects of the economy; news and features articles in various business newspapers and magazines pertaining to the economy; and published views and studies by independent analysts on the economy.

Box 1.1: Nigeria's Resource Endowments and Potentials for Sustainable Development

Nigeria has an estimated population of 120 million in 2001— nearly one-quarter of Sub-Saharan Africa's population, and it is estimated that one in every six black persons in the world is a Nigerian. The country is composed of more than 200 ethnic groups, and more than 500 indigenous languages and dialects, with three major tribes--- Igbo (East), Hausa (North), and Yoruba (West).

Nigeria spans an area of 924,000 square kilometers bordering the Gulf of Guinea, Republic of Cameroon, Republic of Benin, Niger and Chad. The topography ranges from mangrove swampland along the coast to tropical rain forest and savannah to the north. The Sahara desert encroaches upon the extreme northern part of the country. Some 10 percent of the land is covered with forest, and Nigeria's wood resources include large stands of mahogany, walnut, and Obeche. However, rapid deforestation has reduced Nigeria's forest by 50 percent in the last 15 years, and the potential for their future exploitation is extremely limited. The country's fishery resources are fairly small and are concentrated in the coastal area.

The importance of oil in the Nigerian economy notwithstanding, agriculture is the dominant economic activity in terms of employment and linkages with the rest of the economy. Roughly 75 percent (74 million hectares) of Nigeria's total land (98 million hectares) is arable and about 40 percent of this is cultivated--- leaving the remaining 60% of arable land idle. The United Nations Food and Agriculture Organization rates Nigeria's farmland from low to medium in productivity, but notes that most of the country's cultivable land would have medium to good productivity, if properly managed. Despite the existence of two major rivers, the Niger and the Benue, agriculture is

[1] The statistics for 2002 are still being compiled by both the Federal Office of Statistics and the Central Bank of Nigeria, and are not yet published. Although some of the data could be obtained from the files (unofficially), experience shows that they are often unreliable as the final published data often differ significantly from the preliminary data.

predominantly rain fed. Yams, cassava, sorghum, and millet constitute the main food crops. The principal export crops are cocoa and rubber, which together account for nearly 60 percent of non-oil merchandise exports.

The country's proven oil reserves, all located in the southeast and south-south coastal area, amount to an estimated 27 billion barrels, sufficient to last for about 37 years at the current rate of production. Annual production of 2 million barrels per day (mbd) compares favorably to 1.2 mbd in Mexico. Proven natural gas reserves are estimated at 174 trillion cubic feet (equivalent to 30 billion barrels of crude oil), with an energy content slightly higher than the country's oil reserves. These reserves are comparable to those of Algeria, and will last for 110 years at current production levels. Nearly 80 percent of the natural gas produced is presently being flared and most of the remaining 20 percent is used for electricity generation. It is expected that the export of gas will be substantial after the year 2004. Nigeria's rivers also constitute a substantial energy resource, providing the country with nearly half of its electricity.

Nigeria is also blessed with abundant solid minerals deposits including, coal, tin ore, kaolin, gypsum, columbite, gold, gemstones, barites, graphite, marble, tantalite, uranium, salt, soda, and sulphur. The main non-oil exports include: cocoa, coffee, copra, cotton, ginger, groundnut, groundnut oil, gum Arabic, palm oil, rubber, soya bean, and timber.

Nigeria has about 40 universities and boasts of an educated labour force. Limited information is available on the size and the quality of Nigeria's labour force other than what can be inferred from broad social indicators. Various independent estimates put the unemployment and underemployment figures at around 40 percent of the labour force—with a very high rate of graduate unemployment. The adult illiteracy rate is 49 percent. About 76 percent of children of primary school age attend school; the participation rate falls to 20 percent for children of secondary school age. Average life expectancy at birth is 51 years.

Capacity utilization in industry is about 40 percent--- with 60 percent of installed (usable) capacity idle. Furthermore, independent estimates put the stock of capital flight to more than $30 billion. This means that if appropriate policies and enabling environment are in place to induce wealth owners to repatriate just the interest earnings on their assets, Nigeria could reap $3-5 billion per annum in return 'FDI'--- an amount which is multiples of current FDI inflow of barely $1 billion per annum. Furthermore, Nigeria has a large domestic market—which could serve as a springboard for entering export markets in Africa and internationally. These and many other national assets could pave the way for seizing the many development opportunities, which exist in the wake of globalization of industry, trade, investment and cross-border cooperation. With skilful management such opportunities could be converted into achievements towards raising income per capita, creating employment and fighting poverty. These opportunities, however, have as yet largely remained unrealized.

<u>Sources:</u>

1. Moser et al, 1997 (p.5)
2. Nigeria IPRSP (Draft) September 2002
3. Other Government publications

II: Summary of Findings

From the analysis in the Report, some of the key messages in terms of findings include:

- Nigeria has had lost decades of stagnant growth and has been one of the slowest growing economies in the world on a per capita basis in the last 30 years despite receiving about $300 billion from oil exports. There is great spatial and sectoral unevenness in terms of the share of GDP and growth performance: the Northern part of Nigeria with about 55% of the population accounts for about 35% of GDP while the Southern part accounts for 65%; production sector is still dominated by the primary sector—agriculture (41%) and oil (13%) while the secondary sector especially manufacturing has been stagnating (about 6% of GDP) thereby making Nigeria one of the least industrialized countries in Africa; the services sector has been the fastest growing sector since independence. Agriculture is still dominated by peasant agriculture with low and declining productivity; urbanization rate is one of the fastest in the world and with stagnant secondary sector, the urban unemployment is acute with the attendant high level of crimes and social-political tensions. Broad macroeconomic aggregates—growth, terms of trade, real exchange rate, government revenue and spending, etc have proved to be some of the most volatile in comparison to over 100 developing countries. High macro volatility has become a key determinant as well as consequence of poor economic management.

- Overall, the economy is characterized by low savings-investment equilibrium and low growth trap—and lack of high growth persistence is a defining feature of the economy such that in over 40 years, it has never had a growth rate of 7% or more for more than three consecutive years.

- The very low productivity/uncompetitiveness of the private sector and the lack of diversification of the economy are due mainly to the atypically very hostile business environment --- Nigeria is one of the most expensive places to do business in the world. The constraints to businesses range from infrastructure deficiencies, poor security of lives and property, pervasive corruption and rent-seeking, access and cost of finance, weak institutions, ill-defined property rights and enforcement of contracts, and incoherence and frequent reversals of economic policies.

- Nigeria is set to miss the Millennium Development Goals (MDGs): Poverty is deep, pervasive and worsening—with great regional, sectoral and gender disparities. Although poverty is widespread, extreme poverty and poverty incidence exceeding 80% are mostly concentrated in the Northern Nigeria. In particular, poverty is becoming *dynastic* in the sense of the children of the poor having narrowing opportunities to escape poverty. For example, because of the increasing deterioration of the public education system, education is fast losing its potency as the social equalization ladder. The elite and middle class send their children to private schools or abroad while the children of the poor are condemned to poor public education and hence become largely unemployable and/or unemployed/underemployed. Other social indicators are also under stress---inequality is one of the worst in the world; unemployment is threatening social cohesion, security and democracy; and the imminent HIV/AIDS pandemic is a potent bomb waiting to explode and with potential dire consequences for productivity in the economy.

- Despite efforts to promote private sector-led, competitive market economy framework, there is still the fundamental challenge of transition from statism and rent-seeking in an economy dominated by the public sector. The dominant mind-set is still that of command and control, inward-looking and protectionist despite the rhetoric about building a competitive market economy and deep vested interests which profit from the system have proved resilient. The overbloated and inefficient public service has become one of the key problems, and weak institutions and persistent implementation failures are other key features.

- Macroeconomic policy management has been characterized by the boom and burst cycles. Macro policy has been highly circumscribed by the high/inefficient but highly volatile and unsustainable public sector spending, and atypically high volatility of major macroeconomic aggregates. Fiscal decentralization has proved an enduring challenge to effective macroeconomic stabilization and efficient public finance management in Nigeria. There is also the lack of policy coherence between the states and the federal government, and even among the various agencies of the federal government.

III: Medium term growth scenarios

What does the future hold for the Nigerian economy? The message so far in this Report is that the Nigerian economy faces enormous challenges and a bleak future if fundamental steps are not taken to redress the legacies of the past. Among the many requirements for rejuvenating the economy is rapid and broad based growth. But if the past is any guide to the future, then the prospects are not bright. In the last 25 years or more, the highest average regime growth performance of about 5 percent per annum was recorded during the Structural Adjustment period (1986-92). This is just the growth rate required to prevent poverty from worsening (and not good enough to reduce it). The average growth performance in the 1990s (2.8%) is just equal to the population growth rate leaving per capita growth rate at zero, while the average performance since the civilian transition in 1999 (1999- 2002) was about 3.3 percent, with per capita growth rate at 0.5 percent per annum.

Table 1 below illustrates the implications of alternative growth scenarios for per capita income and poverty in the medium to long run. The scenarios assume that the respective growth rates are maintained until 2030, with no demographic transition (i.e., constant population growth rate of 2.8%), and also constant urbanization growth rate of 5% per annum.

- Scenario A considers the implications of Nigeria maintaining the average growth performance recorded in the last four years (about 3.3%) until 2030. Assuming that per capita income was \$300 in 2000[2], by 2015 it would have increased by just US\$23, and by 2030 by just \$48—leaving Nigeria as one of the 10 poorest countries in the world if current trends in the rest of the world continue. Poverty obviously worsens and given the poverty-growth elasticity, the incidence could be as high as 90 percent in 2030.
- Scenario B considers the implications of re-enacting the most sterling growth performance in the last 25 years, that is, the SAP era average growth rate of about 5 percent. This is the growth rate required to prevent poverty from escalating but not enough to reduce it. In essence, poverty incidence stays constant at 70 percent even in 2030, while per capita income increases to \$416 in 2015 and \$576 in 2030—still leaving the average Nigerian very poor.

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[2] The assumption of US\$300 as the per capita income is the most generous assumption, given the poor database and also the fact that various institutions such as the IMF state the per capita income as about \$260.

- Scenario C considers the implications of Nigeria fundamentally changing its strategy and achieving an average of 7 percent growth rate per annum—which is the growth rate compatible with the Millennium Development Goal (MDG) of reducing the incidence of poverty by half in 2015. This growth rate leads to the halving of the incidence of poverty in 2015, and leaving less than 20 percent of the population below poverty line in 2030.

A caveat to these scenarios is that the impact of the 'average growth rate' on poverty would significantly depend on the sources of the growth. Poverty incidence may not significantly come down (even with the 7 percent growth rate) if the growth process is not pro-poor (that is, not broad based or broadly shared). It would make a fundamental difference whether growth is led by agriculture, small and medium scale enterprises and manufactures or by the mining and quarrying sector. It would also make a difference whether or not some of the severely poor states and locations receive targeted attention to jump-start a process of poverty reduction.

Table 1: Implications of Alternative Growth Scenarios

	2000 Actual	2015	2030
Per capita Income Assuming OBJ Average Growth performance (1999- 2002): <u>3.3% or 0.5% per capita</u>	$300	$323	$348
Poverty (assuming 3.3% annual growth)	70%	80%	90%
Per capita income assuming SAP-era 5% annual growth (1986- 1992)	$300	$416	$576
Poverty Incidence (assuming 5% annual Growth)	70%	70%	70%
Per capita income assuming MDG-compatible Growth rate of 7% per annum	$300	$556	$1031
Poverty Incidence (assuming 7% annual Growth)	70%	35%	17%
Nigeria's Population (with 2.8 annual growth rate)	120 million	182 million	275 million
Urbanization (with 5% annual rate of growth)	42 million (35%)	87 million (48%)	182 million (66%)

These rather gloomy scenarios A and B, which derive from Nigeria's historical experience, are also in the context of a rather high population growth rate and high urbanization rate. If the population continues to grow at 2.8 percent per annum, there would be 275 million Nigerians by 2030, out of which 182 million or 66 percent of them would be in urban areas. Recall from the analysis in section II that the secondary sector of the economy, especially manufacturing has been stagnant. If this sector and the services sector do not grow sufficiently to absorb the surge of labor force to the urban areas or the rural areas sufficiently transformed to stem the rate of rural-urban migration, the prospective rate of urban unemployment would be chaotic.

Furthermore, all these are in the context of increasing desertification, land use intensification, and rain-fed agriculture with low productivity. If current trends continue, agriculture would increasingly not be able to support the economy both in terms of employment and income. The average age of the labor force in agriculture is about 48-60 years, and the growing food import bill (about 14.4% of total imports) attests to the potential food security crisis, as Nigeria is increasingly unable to feed herself. The natural resource base of the economy is depleting fast, and the process of diversification is very slow. The educational system is rapidly decaying with the result that an increasing proportion of the graduates are unemployable. All these have grave implications for poverty and unemployment, and hence grave consequences for crime, conflict and sustenance of democracy.

A more fundamental concern is the slowness in the change of economic governance, strategy, and implementation. There is a broad consensus to move towards a private sector-led, competitive market economy framework but little consensus and rigorous articulation of how to get there. Issues of policy and strategy are characterized by ad-hoc measures, frequent reversals, and policy choices not rooted on sound analysis. Weak economic governance—corruption, weak institutions, lack of transparency and accountability--- persists. Key macroeconomic variables remain highly volatile. Government finances are in crisis with domestic debt increasing by 250 percent between 1999 and 2002 (to about US$10 billion), and an external debt burden, which the government is barely able to service about 50 percent of the contractual service obligations. Government finance is also characterized by pension crisis, arrears of salaries of civil servants, huge debts to government contractors and suppliers of goods and services, a boom and burst cycle of revenue and expenditure, mis-allocation and mismanagement of resources, etc (see section II for details). At the state government level, a major crisis is looming but goes largely unnoticed. In many states, debts are accumulating at unsustainable levels and weak institutions and economic governance are very acute. Escaping these traps into a sustainable development path can be daunting, except by a flute or a fundamental change of strategy.

Requirements for High Growth

There is a broad consensus that a sustained annual GDP growth rate of 7 percent or higher will be required to meet the MDG of halving the incidence of poverty by 2015. For Nigeria, this would be miraculous, given that in the over 40 years of independence, it has never achieved such a growth rate for more than three consecutive years let alone sustained over a longer period. Lack of *growth persistence* is a feature of Nigeria's economic history.

Achieving such a major growth turnaround requires an investment rate of at least 30 percent of GDP per annum (assuming the East Asian efficiency level or its ICOR). This translates to about $12 billion in investment per annum. With a domestic savings rate of about 14 percent, and with a total resource inflows (FDI and ODA) approximately 3-4 percent of GDP, there is still a financing gap of about 12-13 percent of GDP or about $5 billion per annum of *additional* investment. Note that this calculation is predicated on a very low ICOR (high efficiency level comparable to that of the East Asian economies). In the medium term of next five years, it would be spectacular if Nigeria can attain such an efficiency level. If we use the current Nigerian ICOR--- which incorporates a very high degree of waste/inefficiency, the financing gap required to achieve the target growth rate could be as high as 25 percent of GDP or about $10 billion in *additional* investment. Thus, under both scenarios (best and worst case scenarios of ICOR), the financing gap ranges between $5- 10 billion of additional investment. These calculations, with all their imperfections in terms of the assumptions underlying them, still give a rough idea about the nature of the resource constraints—which is huge indeed.

To overcome the low growth trap and unleash a momentum for a virtuous growth path, Nigeria needs to invest huge resources in the right composition[3], and also address waste and inefficiency. As shown above, merely improving efficiency to the level of the East Asian economies lowers the additional investment requirements by 50 percent. This is a fundamental agenda for moving forward.

Are there potentials for new beginning? Yes. In Box 1.1 the abundant resource endowments and potentials for sustainable development are enumerated. There are both resource and growth reserves to be exploited for quantum growth leap. For example, Nigeria mimics a post-conflict economy in terms of idle productive resources--- with two-thirds of arable land idle, unemployment over 40 percent, capacity utilization in industry about 40 percent, etc. There are also abundant but largely unexploited natural resources—gas reserves about 174 trillion cubic feet or equivalent of 30 billion barrels of oil, petrochemicals, coal, gypsum, cold, gemstones, uranium, marble, etc. The new democratic experiment—which seems to be consolidating, and the prospects of improved governance and better institutions—is an asset for better performance. As the privatization of public enterprises deepens, it also promises to buoy up the private sector, and eliminate rents and reduce inefficiency. There are also opportunities offered by the globalization process (and prospects for leapfrogging) as well as the preferential and differential trade concessions under the U.S. AGOA, the EU-ACP-Cotonou Agreement and impending economic partnership agreement. If appropriate incentives are in place, the brain drain of Nigerians in Diaspora could be turned into brain gain---through increased remittances, technology transfer, and even return of capital flight (which could be up to $2- 5 billion per annum). In other words, there are ample opportunities to jump-start faster growth—if the right strategy can be crafted and implemented.

IV: Summary Agenda for Economic Growth and Competitiveness

From the analysis in this Report, the agenda for reforms are self-evident, and there is a broad consensus around this agenda. It is fair to say that a broad consensus exists among key stakeholders in the Nigerian economy—Government, private sector, households, and external actors—on WHAT to do to get the economy going (see various Government policy documents for various sectors, the Obasanjo Economic Direction, 1999- 2003; the Vision 2010 Reports; various summary reports of annual Economic Summits, World Bank's country assistance strategy papers, IMF's memorandum of Article IV consultations, etc.). It is broadly agreed that the challenge of development should be that of rapid growth with inclusion/poverty reduction, and that the key vehicle to achieve it should be a shift from statism and rent-seeking to a private sector-led, competitive market economy framework.

The broad consensus can be summarized viz:

To move forward, fundamental reforms must take place at several clusters of issues

[3] As pointed out above, the composition of investment matters a lot for income generation and poverty reduction. For example, nearly all of the current FDI flows go into the extractive (mainly oil) industry. If they were to flow to the non-oil sector especially the SMEs, energy, agriculture, telecommunications, and export-oriented manufactures, the outcomes for employment and poverty could be dramatically different

Goals to focus on:

- Rapid and broadly shared growth (pro-poor growth)
- Diversification of production structure, and sustainable private sector-led growth, and
- Employment creation

Means/Instruments to achieve the goals around five major clusters

a. Improving economic governance:

- Reducing corruption and rent-seeking,
- Ensuring transparency and accountability,
- Reforming and strengthening weak and inefficient institutions for policy design and implementation, including:
- Strengthening and reforming public procurement system for transparency and accountability, and ensuring higher value-for-money in spending
- Reforming the civil service—rationalization/retrenchment, professionalization, and competitive wage structure
- Reforming the budget process and financial management
- Re-thinking fiscal federalism to manage oil rents and promoting competition at all levels of economic management

b. Managing Macro Volatility/stability

- New fiscal rules -- to manage boom and burst
- Addressing pension crisis
- Better debt management: No new borrowing -- [domestic debt becoming unsustainable -- grew 2.5 times since 2000- and $4 billion to $10 billion in 2002.
- Competitive and stable real exchange rate regime
- Better access and cost of credit for private sector

c. Infrastructure – urban and rural [critical for business and poverty reduction]

- Electricity; water
- Roads/ development of rail system
- Telecommunications
- Ports
- Efficient and effective service delivery models

d. Enlarging the domain of private sector

- Deepening the privatization Privatization program
- Money and capital market reforms to improve access to finance
- Institutional and regulatory reforms
  - Competition policy and anti-trust reforms
  - Administrative barriers to businesses
- Incentive structure – taxes, EPZs, etc
- Strategic Integration to global trading system
- Targeting of SMEs

e. Targeting the poor and vulnerable groups

- Education, Health and agriculture
- Legislation addressing women's access to assets [e.g. land], Inheritance; women's rights [affirmative actions]
- Promotion of demographic transition
- Provision of high yielding agricultural inputs
- Government investment in land for agriculture
- Promoting corporate social responsibility – for redistribution
- Targeting disadvantaged areas in public investment
- Innovative approaches through private sector

V: Strategic Agenda for Donor Intervention

In the ideal aid delivery mechanism envisaged under the Comprehensive Development Framework (CDF) of the World Bank, and the various guidelines and rules of aid delivery approved by the OECD-DAC, all ODA should be effectively coordinated and completely aligned within the country's owned development agenda. The delivery mechanism should be mostly through the recipient government's budget; program aid and sector-wide approaches (SWAPs) replacing project aid; and harmonization of individual donor procurement, accounting, and reporting systems and aligned to the country's own processes and procedures. Under this framework, it is the recipient country's government, with its country-owned development agenda, that should dictate the priorities for donor intervention and provide leadership in donor coordination. Were this mechanism to be fully operational, there would be no need for donors to design their individual strategic plans. A recent evaluation of the CDF Framework by the Operations Evaluation Department of the World Bank[4] shows that while progress is being made in some countries towards this framework, there is still a long way to go in many other countries.

Nigeria is significantly off-the-mark in terms of the conditions for effective aid coordination envisaged by OECD-DAC, especially in terms of having a country-owned development agenda and effective institutional framework and leadership to coordinate donor activities. Nigeria's relationship with donors has also been a rather bumpy one--- with the consequence of small but highly volatile aid inflows to the country[5]. The average civil servant jumps at every prospect of receiving money and support from donors although given the country's long history of isolationist policies and on-

[4] The Synthesis Report of the Evaluation (authored by Paul Collier, Charles Soludo, Carol Lancaster, Alison Scott, Ibrahim Elbadawi, John Eriksson, and Laura Kullenberg) is being published by the World Bank, and expected by end of May, 2003.

[5] Nigeria's relationship with the multilateral agencies especially the World Bank and the IMF has not been a rosy one, and the two institutions come into Nigeria with significant baggage. Given the peculiar history of how structural adjustment program was introduced in Nigeria, the average Nigerian perceives these two institutions as 'bad news' in the sense that they are seen as being synonymous with anti-people policies. Indeed, the easiest way to blackmail a government in Nigeria is to label it as being beholden to the World Bank and the IMF. Other donors (especially the bilaterals) come with less baggage, but there is still strong suspicion of the so-called 'donor hidden agenda'. The so-called 'harmless donors'—the UN agencies such as the UNDP, UNICEF, ILO, UNIDO, etc enjoy a high degree of trust but they have little cash to be effective.

and-off relationships with donors, many are yet to transit from the siege mentality of ‘us versus them’ to see donors as development partners. On the other hand, the donors are yet to build enough trust and confidence to let Nigerians drive the process or are constrained by their procurement rules to insist on their own ways of doing business.

Thus, donors faces the challenge of how to design and deliver their assistance and be effective in assisting Nigeria achieve rapid and inclusive economic growth and development in the following contexts:

a. Relatively **small aid budget relative to the size of the Nigerian economy**: As indicated earlier, total donor aid budget for Nigeria is at best 1 percent of Nigeria’s GDP while the average country in Sub-Saharan Africa receives about 10- 15 percent of GDP in ODA. For individual donors, their shares are even much smaller. For example, USAID’s projected $60 million annual aid budget for Nigeria is about 0.13 percent of Nigeria’s GDP—although it is still a large share of the total ODA to Nigeria. Relative to the *additional* financial needs (financing gap) of about US$6 billion needed to achieve the MDG-compatible growth rate of 7 percent or more, the resource constraint faced by donors raises other challenges that need to be tackled in order to be effective.

b. **Setting priorities**: Given the enormity of the economic development challenges and the relatively low aid budget, there is the challenge of how to set priorities, make maximum impacts and remain focused. Obviously, there will be demand and pressure to get into everything since literally everything needs to be done given the country’s initial conditions. This temptation must be resisted.

c. **Delivery mechanism:** Even when the priority sectors/programs are selected, there is the challenge of how to package and provide the assistance in such a way as to maximize its effectiveness.

We structure the recommendations around the two key themes of setting priorities and the delivery mechanism for effective impact on the economy.

At a general level, it is evident that the most important role for donors is to act as catalysts for change. That Nigeria has abundant resources is both true and false: true in the sense that its huge resources are being largely mismanaged, misallocated and wasted, and false in the sense that even if its so-called huge oil resources (amounting to about $90 per capita per annum) is efficiently spent, there would still remain significant resource gaps in terms of the requirements for sustainable long-term growth. However, even just helping Nigeria to get its priorities right and its resources efficiently deployed would significantly turnaround the comatose economy and set it on a path to poverty-reduction. The first order of business for donor agencies and USAID in particular therefore should be to assist Nigeria spend its money wisely--- by supporting change agents within and outside of government, mainstreaming of best practice ideas through policy dialogues, technical assistance in policy design and implementation, and demonstrative projects on ‘how to do’ things.

Setting Priorities:

As indicated earlier, donors cannot be effective if they do not set clear priorities and stick to them. Such a prioritization must derive from the observed needs in the economy, donors' lessons of experience in the last four years, as well as their comparative advantages in the programmatic areas. From all indications and the evaluation presented in this Report, Nigeria belongs to what the World Bank refers to as 'Low Income Countries Under Stress' (LICUS). For these countries aid should be targeted to address governance and institutional issues as well as help deliver basic services to the people and businesses.

As indicated above, there is a broad consensus that for poverty-reduction and rapid growth in Nigeria, three key priority areas should include:

- Improving economic governance
- Creating the enabling environment for rapid private sector-led, competitive, and poverty-reducing growth in the non-oil economy; and
- Targeted interventions to address poverty, including the empowerment of local communities, and sectoral reforms in agriculture, health, education and the environment.

There are immense synergies among the three thematic areas. Without good governance and peace, economic development cannot proceed. But it is difficult to maintain peace and good governance where poverty is pervasive and social exclusion is extreme. And poverty reduction and rapid growth cannot be sustained without a vibrant and competitive private sector, improved agricultural productivity, and social sector transformation.

Thus, the USAID/Nigeria's recently approved Concept paper for the Country Strategic Plan (CSP) for 2004- 2009 is right on the mark by selecting the following four priority areas for strategic engagement:

- good governance and conflict mitigation;
- sustainable agriculture and diversified economic growth;
- social sector service delivery; and
- HIV/AIDS and tuberculosis.

It is expected that the Mission would actively seek opportunities for synergy and integration within these program areas and also between them. Five key cross-cutting themes that will be addressed in each strategic area have also been identified: food security, gender, HIV/AIDS, conflict, and environment.

Evidently, all these areas have direct impacts on the economy. They remain sufficiently broad to allow for innovation and flexibility. However, to guide operations, USAID needs to articulate even more tightly focused set of intervention areas and criteria for selection of programs and projects in the respective thematic areas. At the minimum, it is important to decide on the appropriate weights to be assigned to each of the programmatic areas for purposes of funding. A lot of subjective evaluations are involved in the assignment of weights and USAID has made its own subjective allocation of funds to the identified priorities.

More specifically, donor intervention as catalysts for change and better economic management should be more tightly focused, and translating the broad thematic areas into operational items requires some strategic choices to be made. Such choices obviously derive from the perceived urgency of interventions in the areas and hence the likely high payoffs of such interventions in laying the foundations for sustainable economic transformation. Five key priority program areas are identified for immediate attention in the next few years as follows: a) **policy and process reforms and legislations** to support economic development; b) **economic governance--** institutional reforms and strengthening of institutions for effective implementation and delivery of basic services for private sector operations; c) **supporting change 'from below'—**institutional support to strengthen independent think-tanks, NGOs, business associations, TV programs for mass economic education, etc; d) **targeted sectoral interventions**—demonstrative projects in agriculture, networking of Nigerian and American businessmen, benchmarking competitiveness surveys, etc; and e**) State Governments**--- mainstreaming of best practices in public sector financial accounting and management in selected states in the six geo-political zones.

Table 2: Proposed Programmatic Areas for Donor Budget Allocations in Nigeria to Promote Sustainable Broad-based Economic Growth

PROGRAMME AREA	Percentage of total budget
1. POLICY AND PROCESS REFORMS AND LEGISLATIONS TO SUPPORT ECONOMIC DEVELOPMENT A. Policy: (Policy development, and public-private dialogues to generate and sustain broad consensus and support for economic policy reforms). ➢ The PRSP or Government's Economic Action Agenda ➢ Trade Policy; Industrial policy; financial sector policy; agricultural policy; Competition and anti-trust policy; ➢ Budget policy and process reforms; monetary and exchange rate policy; etc * An important element of these policy reforms is to also support effective stakeholder participation in policy and institutional reforms[6]. B: Policy Dialogues: Support for continuing public-private policy dialogues to mainstream best practice ideas, share experiences, and sustain support for economic reforms. C: National Assembly: * Set up equivalent of Congressional Budget Office TA Support for key committees in National Assembly for speedy and effective legislations needed to move the economy forward[7].	

[6] Experience has so far shown that one key reason why policies are frequently reversed is the lack of broad based consensus around them. In the past for example, tariff revisions were done in an opaque manner with the relevant government committee and consultants revising the tariff schedules without inputs from the stakeholders. Such tariff schedules have often been beset with hundreds of petitions afterwards, and leading to frequent revisions.

[7] This is a very important but often neglected area in donor support. Support for the Executive Branch cannot be effective if the enabling legislations are not in place. Two examples would suffice here. Without the Energy Reform Bill being passed by the National Assembly, the privatization of NEPA cannot proceed. Also, the Executive can be assisted to produce the best budget that makes the most economic sense, but experience in the last four years shows that the National Assembly can often enact the Appropriation Acts that bear little resemblance to the original bills submitted by the Executive branch.

➢ Finance and Appropriations Committee ➢ Privatization and Commercialization Committee; etc, and target such legislations as: ➢ Commercial law reform ➢ Energy Reform Bill ➢ Freedom of Information Bill ➢ Federal Competition Bill; etc. ➢ Solid Minerals and Gas Reform bill ➢ Tariff Schedule bill	
2. **ECONOMIC GOVERNANCE:** INSTITUTIONAL REFORMS AND STRENGTHENING OF INSTITUTIONS FOR EFFECTIVE IMPLEMENTATION AND DELIVERY OF BASIC SERVICES FOR PRIVATE SECTOR OPERATIONS ➢ Federal Competition Commission ➢ Federal Procurement Commission ➢ The Budget Office ➢ Reformed Office of the Chief Economic Advisor for coordination and evaluation ➢ Budget Office in the National Assembly ➢ Federal Office of Statistics ➢ Nigerian Ports Authority ➢ Continuing support to BPE, DMO, BMPI, ICPC, NIPC, etc	
3. SUPPORTING CHANGE 'FROM BELOW' - Institutional support to strengthen the capacity of: - 2- 3 independent think-tanks (economic policy research) - 1 independent agricultural policy think-tank - 3- 5 Business Associations - 2 NGOs demanding transparency, better governance, etc - Economic Journalists' training - Specialized TV program on Economic policy: for dissemination of research findings, sharing best practice ideas, public education on hard economic policy choices, etc.	
4. TARGETED SECTORAL INTERVENTIONS ➢ Demonstrative projects in agriculture e.g. the Gum Arabic project; farmer to farmer project; etc ➢ Projects targeted at linking Nigerian exporters and businesses and their U.S. counterparts or markets e.g. under the AGOA program ➢ Annual benchmarking competitiveness surveys--- on institutional and administrative improvements in economic governance, and cost of doing business—to pressure government and private institutions to deliver effective services for competitiveness ➢ SME and Micro finance initiative	
5. STATE GOVERNMENTS: FINANCIAL MANAGEMENT (Strengthening the capacity of state governments' financial accounting and management--- mainstreaming best practices in public sector financial	

management in selected states in each of the 6 geo-political zones). A start could be made with the selection of one state in each geo-political zone).	
TOTAL	

Two key points need to be stressed from the above five thematic areas. First, policy and process reforms must be recognized as a key first step in Nigeria's economic transformation. A central message of LICUS initiative is that where the meta-level issues (right policy framework and governance/institutional capacity) are missing or weak, micro-level, sectoral interventions can be either ineffective or unsustainable. It is often difficult for donors to show tangible (measurable) impacts in theses policy and process reform areas. Also, it is a difficult area to make progress especially in an environment with entrenched interest groups and weak institutional capacity. However daunting the challenges of making progress in these areas might seem, it would be a mistake to attempt to by-pass them: they hold the key for sustainable progress. Donors (and USAID particularly) should make continuing efforts to ensure better economic policy framework as well as sectoral policies that should underpin other micro-level sectoral interventions. Without a clear policy direction orchestrated through stakeholder participation to ensure sustainability, it would be difficult to sustain other interventions. The point however is not to freeze all other interventions unless and until the meta-level framework is right but to recognize it as a long-term area of engagement that should attract continuing interest.

The second point is to emphasize two new areas of strategic attention, and to deliberately allocate a certain percentage of the total budget to their realization. These are the empowerment and strengthening of independent institutions as change agents. Until and unless private sector institutions are empowered to demand for good economic governance and efficient service delivery, as well as provide alternative policy scenarios as basis for public-private sector dialogues, the citizens will be ill-equipped to hold the government accountable.

Delivery mechanism: How should aid be packaged and delivered?

This is a very critical but difficult question to answer. The attempt here is to outline some key principles rather than to write down hard and fast rules of engagement. A lot of judgement would be required on the part of the donor program directors in determining specific project/program design and budgeting as circumstances and performances change.

Targeting persons and/or institutions?

In principle, donors should target and support key change agents within and outside of governments. There are key institutions as outlined in Table 2, but there are significant differences among them in terms of the capacity of their leaderships. Ex-ante selectivity in terms of supporting proven reformers rather than hoping that aid or conditionality would create reforms is the new framework for aid delivery. But there is a clear tension here in the sense that certain institutions might be too important to be abandoned, and also given the frequency of change of personnel within government, targeting individuals alone can be tricky. A balance is needed: target greater resources to proven winners, while keeping engaged with critical institutions so as to possibly help to orchestrate change.

Aid Coordination and Leveraging of Higher resources

There is a clear need for increased aid coordination in Nigeria. Ideally, the government ought to provide leadership in this coordination, and this is not happening in Nigeria. The Bretton Woods Institutions--- World Bank and the IMF--- provide such leadership in many countries. In Nigeria, depending on the issues involved, the Bank and the Fund may have to cede leadership in the coordination to other donors such as the USAID, DFID, the EU, etc. The underlying point is the need for effective coordination of donor assistance. Such coordination has the advantage of minimizing duplication and waste, and also ensuring higher impacts of aid delivery.

In an ideal coordination world, donors could pool their funds for specific programs and projects. The tension here is the pressure on individual donors to 'plant their flags' as well as the constraints of individual donor procurement rules. A lot of creativity would be required to make the pooling of funding work better.

An important but largely under-utilized resource of donors is the leveraging of additional resources. For example, the American power and influence could enable USAID to leverage other resources in sectors and activities where it is interested in. As a lead donor agency in providing pure grants--, it is possible that for every one dollar USAID invests, it could leverage additional five dollars. In effect, the $60 million USAID annual budget could leverage additional $300 million.

***Partnership and Sustainability*:**
Right from the design stage of each project or program, donors should incorporate a clear exit strategy. Obviously, certain programs or projects should have just a short-term, once and-for-all implementation. Examples of such might include the privatization project which might cease when the privatization program ends . Some others are longer-term in nature. One possibility is for donors to target counterpart funding from government, other donors, and the private sector. For sustainability therefore, a key ingredient is effective partnership with local and international institutions and donor agencies.

A key element in the sustainability of the technical assistance program is the conscious effort to domesticate such assistance. To be effective, such a domestication process should target institutional strengthening rather than just ad-hoc involvement of free-lance local experts. For example, there could be a deliberate policy to require foreign consulting firms to bid for technical assistance contracts in partnership with local consulting or research institutions. This way, the continuing interaction of foreign and Nigerian institutions and experts would buoy up local capacity which resides not only in the individuals but also in the collaborating institutions. Thus, individual consultants can come and go, but institutions would remain.

Demonstrative projects approach

Ultimately, aid from most donors is dominantly technical assistance. Even if donors deploys all their budget allocation to only one sector, such a budget might still be far smaller than the total public sector spending in the particular sector. Thus, as a technical assistance program, donors should aim to leverage their vintage position to demonstrate best practice ideas on how to implement certain projects. Whether it is in the micro finance project, specific agricultural project, or delivery of public services, donors cannot be an effective or sustainable substitute for local resources or efforts. While insisting on counterpart local institutions and resources, donors' comparative advantage will be the higher technical know-how on 'how to do things better' which derives from their global experiences.

In all cases, it will be necessary to tailor specific projects within the country's overall development strategy in the sector by show-casing examples of how to implement specific projects and programmes.

Re-thinking the Results Orientation and Measures of Performance

A common problem in aid delivery is the results-orientation and measures of performance. Often there is the problem of attribution. Most aid programs target poverty reduction. But several factors affect poverty, and there are dozens of initiatives targeting the same outcomes. In the bid to 'plant flags' and claim any observed successes, individual donors often bunch together in 'high performing sectors' and neglect areas where impacts are difficult to measure. For example, it is tempting to cluster around projects that have high visibility--- schools built; hospitals built; etc, and perhaps neglect fundamental issues of institutional development and strengthening which are long-term and impacts difficult to measure. There is thus the conflict between the short run pressure to show results versus considerations for long-run sustainability and change. How the donors overcome this glaring pressure point would require creativity in the choices made and the delivery mechanism.

A possible re-orientation is to see outcomes within the context of **'team spirit'**, that is, **partnership**. If GDP grows faster or if overall poverty incidence drops, it is the result of effective development partnership. It would be unrealistic or incredible for any one donor agency or partner (not even the Federal Government of Nigeria in a federal structure) to effectively attribute the results to its own specific interventions.

Furthermore, it is possible to think of a different way of measuring aid impact through strengthened institutions, policy studies and better policy choices. For example, if $5 million is spent to prevent a costly policy error or program design that costs the country say $100 million, then the impact of the $5 million is actually the alternative impacts of better spent $100 million (which could have been wasted). If donor assistance had prevented the commencement of the Ajaokuta Steel Mill, and the equivalent of billions of dollars already spent on it had been applied elsewhere, that could be seen as the impact of the technical assistance. In Nigeria, given the very high waste or inefficiency, or very low value for money, donor assistance could significantly help improve the use of Nigeria's money by funding such agencies as the procurement commission, budget monitoring and price intelligence, federal competition commission, etc--- all geared towards better economic governance, transparency and accountability.

1: Introduction

1.1: Context

Nigeria has the potential to become Sub-Saharan Africa's largest economy and a major player in the global economy by virtue of its rich human and material resource endowment. But much of its potentials (see Box 1.1) have remained untapped, and if current trends continue, Nigeria runs the risk of not meeting the internationally agreed Millennium Development Goals by 2015.

Nigeria's economic landscape especially since the oil boom of mid 1970s has become the textbook example of Africa's economic growth and development tragedy. Relative to its own history and in comparison with other countries (in Africa and Asia, especially Indonesia which is comparable to Nigeria in most respects) the economic development tragedy stands out. With a GDP of about $43 billion in 2001, the economy has shrunk to a third of its size in 1981, per capita income has shrunk from about $1150 in 1981 to barely $300 in 2001, and Nigeria is now one of the 20 poorest countries in the world. As at 2001, Nigeria had received approximately $300 billion from oil exports since the mid 1970s, but per capita income was 20% less than the 1975 level, and the country has become so heavily indebted (70% of GDP) that it has serious difficulty servicing existing debt. All major productive sectors have considerably shrunk in size since the 1980s. Poverty is deep, severe and pervasive, with about 70% of the population living below poverty line. Poverty is also becoming *dynastic* in Nigeria—with the threat that the children of the poor are also likely to end up poor. Income distribution is so skewed that the country is one of the most unequal societies in the world, with 50% of the population having only 8% of the national income. The economy remains highly de-capitalized and undercapitalized, uncompetitive and at a pre-industrial and pre-exporting stage. With an average annual investment rate of barely 10% of GDP, Nigeria is too far behind the minimum investment rate of about 30% of GDP required to unleash a poverty-reducing growth rate of about 7-8% per annum. Nigeria is not only very poor; it also experiences the worst forms of de-capitalization (human and financial). Because of the risky and unprofitable investment climate, private agents have chosen to keep the bulk of their assets abroad (with independent estimates of the stock of capital flight abroad at over $50 billion), and over one million Nigerians (mostly highly educated) have emigrated to Europe and the U.S. (brain drain). Most of the FDI into the country goes into the oil and extractive sectors. The economic structure remains highly undiversified, with oil accounting for 95% of exports, and manufacturing sector accounting for less than 1 percent of exports. Nigeria has been losing international market shares even in its traditional (agricultural) exports since the 1970s.

All these are the legacies of decades of dictatorial misrule and a myriad of self-inflicted constraints and policy errors. Government reputation has been badly damaged, and frequent policy reversals were major features of past governments. The country and its institutions so degenerated for decades that it has been consistently ranked number one or number two most corrupt country in the world by the Transparency International. Some of the other legacies of the past pertaining to investment and trade include very high, widely varying levels of protection across sectors, perverse incentive structure, no effective lock-in of policy and institutional reforms within a regional and global context, high transaction costs, risky, uncertain and unprofitable investment climate, import dependent and unproductive firms, and inexperience, as well as non-confidence among Nigerian businesses in their abilities to compete in international markets. Given path dependence, there is still a hysteresis of the past, and it would take extraordinary efforts to break out of the web of vicious circles into which Nigeria is currently mired.

The new administration of President Obasanjo was mindful of these challenges and expectations. It promised Nigerians in its *Obasanjo' Economic Direction 1999- 2003* (pp.8-9) to establish "one of the leading economies in Africa: an economy that experiences rapid and sustained growth at not less than 6-10% per annum at the end of the present Administration's tenure. The creation of a national economy that is highly competitive, responsive to incentives, private sector-led, broad-based, diversified, market-oriented and open, but based on internal momentum for its growth…is the goal". There is broad public-private sector consensus around this goal.

Economic performance in the past four years since 1999 has been a mixed grill of promise and disappointment as the new civilian government grapples with the daunting task of turning around an economy paralyzed by decades of mismanagement, corruption, and ethnic division. The challenges are not made easier by the immense expectations and pressure to deliver 'democracy dividends'. Verdicts on the government's economic performance seem to oscillate around the extremes. For some critics, the economy has done very badly relative to its potentials (resources and given that oil prices almost doubled during the period relative to the average for the 1990s) and even relative to the Government's own contract with Nigeria as contained in the targets set in the *Obasanjo's Economic Direction, 1999- 2003* (see Appendix Table 1 for overview of targets and actual performance).

On the other hand, even though the Federal Government has probably not met up to 50% of the targets it set for itself in its Economic Agenda, the Government scores its performance very high on the argument that it underestimated the extent of the decay and the time and resources needed to fix it. Whatever the interpretation of the performance, the fact is that Nigeria is set to miss the MDGs if current trends continue. The rate of economic growth required to prevent poverty from worsening is 5%, and about 7-8% required to significantly reduce poverty. But average growth rate in the last four years was about 3.3%, and hence poverty is worsening. Unemployment is threatening social stability and the cities are increasingly becoming unlivable due to violent crimes, the institutions of economic governance remain weak and inefficient, public service delivery is poor, Nigeria is still ranked a very corrupt country, etc. Thus, the challenges are still immense, and call for urgent actions.

The size and strategic importance of Nigeria in Africa (especially in West Africa) is such that the stakes are very high. Nigeria is the source of stability in the West African region--- having led a multilateral peacekeeping force to Liberia and Sierra Leone, and continuing peace-keeping role in the sub-region. On the economic front, Nigeria accounts for about 55 percent of the West African GDP. Thus, a vibrant and growing Nigerian economy will act as a strong growth pole for West and even Central Africa. Sub-Saharan Africa as a region cannot succeed in reducing poverty and it cannot reach the MDGs of 2015 unless Nigeria, with one-fifth of the African population, succeeds in its own economic development.

But Nigeria has enormous potentials and a window of opportunity to initiate and sustain a quantum leap forward (see Box 1.1). From all indications, Nigeria mimics a post-conflict economy, and better-managed African economies in similar situations—Uganda, Mozambique, Ghana, etc have sustained higher growth rates for a long period. The continuing consolidation of the democratic experiment offers an opportunity for constructive dialogue on how to move forward. Furthermore, there are tremendous opportunities waiting to be exploited---tremendous entrepreneurial abilities of Nigerians, goodwill of the international community; and opportunities offered by several bilateral and multilateral trading arrangements---Africa's NEPAD and ECOWAS integration, U.S.- AGOA, EU-ACP Cotonou Agreement, the impending Economic Partnership Agreement with the European Union, etc. All these require the unleashing of an investment boom and achieving production diversification/export competitiveness as the winning strategy for rapid growth, employment creation, and poverty reduction. The bigger task lies in articulating a coherent strategy and identifying internally-consistent set of instruments to achieve the broad goal. This is especially a daunting challenge in an environment with decades of crude import substitution industrialization, a dominant mind-set that is highly protectionist and with little capacity and constituency for aggressive reforms towards a competitive market economy.

Nigeria needs help. The Government needs help to meet the challenge of initiating an inclusive rapid growth with social-structural transformation--- to strategize, prioritize, and to manage its own resources better. But such must be predicated on sound analysis and evaluation of the state of the economy. This Report provides an assessment of the macro economy, with a view to highlighting some key pressure points for strategic intervention.

1.2: Methodology and organization of the Report:

The approach used in the Report is descriptive but mostly analytical. Fundamentally, the approach provides an in-depth economistic assessment of the macro and micro aspects of the economy but complemented with an evaluation of the human development record. The emphasis on the human development balance sheet derives from the fact that the economy is ultimately about people and resources. Thus, no proper understanding of the economy and its future prospects can be made without a better understanding of the human development indicators--- human capital resources, poverty and inequality, gender issues, employment, and factors likely to hamper productivity such as the HIV/AIDS pandemic and exclusion/ suppression of productive groups such as women.

As much as possible, the analysis of the most recent developments (last five years) is done in comparative perspectives--- in comparison with the country's own historical trends but in some cases also with other African and developing country performances. The goal is to dramatize the distinguishing features of the economy and its management, as well as its key economic development challenges. The key questions to frame the discussions in each section include: where is Nigeria relative to where it needs to be?; why is it where it is?; what has been done in the past or being done currently to change the situation?; what are the lingering challenges, and a possible agenda for change?

The assessment is data intensive, and the data are from secondary sources. The macroeconomic data come from the publications of the Central Bank of Nigeria, Federal Office of Statistics, relevant ministries and government agencies, the World Bank's Global Development Indicators, the IMF's World Economic Outlook databank, International Financial Statistics; and from sundry publications as indicated in the references. The micro (sectoral and competitiveness) analysis relies heavily on firm level surveys such as the World Bank's RPED survey of the manufacturing sector in 2001 and the Private Sector Assessment Report; the UNIDO's competitiveness survey 2001 and the Report; surveys of the manufacturing, agriculture and other sectors by the Federal Office of Statistics; the Investor Road Map surveys; the FIAS survey of administrative barriers to business; the surveys and

Reports by the Manufacturers Association of Nigeria; etc. The human development evaluation draws from the various poverty assessment survey results; the UNDP's Human Development Reports (global and Nigerian country reports); rural development assessment surveys; various surveys and reports by the Federal Office of Statistics on the social sector; etc. The latest data for most macroeconomic statistics are for 2001[8], and some of the illustrative tables and Boxes are in the Appendix.

The range of published materials and unpublished reports used in this Report are diverse, including those from the federal government, study reports and policy documents by donor and multilateral agencies, and publications and reports emanating from the private sector. The Government of Nigeria's various policy documents include the National Development Plans; National Rolling Plans; annual budgets; Vision 2010 documents; publications by the Central Bank of Nigeria, Ministry of Finance on the economy; specific sectoral policy documents such as those for trade; agriculture; industry; oil and gas; education; health; the Government's strategy paper for Consultative Group meetings with the Paris Club; draft Poverty reduction strategy paper (PRSP); Obasanjo's Economic Direction, 1999—2003; etc. The documents from donors and multilateral agencies include the various IMF Staff Reports for the Article IV Consultation; the World Bank's Country Assistance Strategy papers; various donor sectoral studies and strategies for Nigeria; etc. The private sector provides an assortment of sources, including the publications by the Manufacturers Association of Nigeria, the various summary reports of the annual Economic Summits by the Nigerian Economic Summit Group (NESG), annual conference proceedings of the Nigerian Economic Society (NES) on various aspects of the economy; news and features articles in various business newspapers and magazines pertaining to the economy; and published views and studies by independent analysts on the economy.

The rest of the Report is organized as follows. Section II provides a general assessment of the structure and performance of the macro-economy in terms of output, income, expenditure, and policy thrusts. In Section III, the microeconomic perspectives, especially in relation to the competitiveness of key sectors of the economy, are provided. Section IV assesses the nature, severity and responses so far to the poverty challenge and decay of the social sector. Section V evaluates the prospects in the medium term, and offers some broad recommendations on possible areas for programmatic interventions.

Box 1.1: Nigeria's Resource Endowments and Potentials for Sustainable Development

Nigeria has an estimated population of 120 million in 2001— nearly one-quarter of Sub-Saharan Africa's population, and it is estimated that one in every six black persons in the world is a Nigerian. The country is composed of more than 200 ethnic groups, and more than 500 indigenous languages and dialects, with three major tribes--- Igbo (East), Hausa (North), and Yoruba (West).
Nigeria spans an area of 924,000 square kilometers bordering the Gulf of Guinea, Republic of Cameroon, Republic of Benin, Niger and Chad. The topography ranges from mangrove swampland along the coast to tropical rain forest and savannah to the north. The Sahara desert encroaches upon the extreme northern part of the country. Some 10 percent of the land is covered with forest, and

[8] The statistics for 2002 are still being compiled by both the Federal Office of Statistics and the Central Bank of Nigeria, and are not yet published. Although some of the data could be obtained from the files (unofficially), experience shows that they are often unreliable as the final published data often differ significantly from the preliminary data.

Nigeria's wood resources include large stands of mahogany, walnut, and Obeche. However, rapid deforestation has reduced Nigeria's forest by 50 percent in the last 15 years, and the potential for their future exploitation is extremely limited. The country's fishery resources are fairly small and are concentrated in the coastal area.
The importance of oil in the Nigerian economy notwithstanding, agriculture is the dominant economic activity in terms of employment and linkages with the rest of the economy. Roughly 75 percent (74 million hectares) of Nigeria's total land (98 million hectares) is arable and about 40 percent of this is cultivated--- leaving the remaining 60% of arable land idle. The United Nations Food and Agriculture Organization rates Nigeria's farmland from low to medium in productivity, but notes that most of the country's cultivable land would have medium to good productivity, if properly managed. Despite the existence of two major rivers, the Niger and the Benue, agriculture is predominantly rain fed. Yams, cassava, sorghum, and millet constitute the main food crops. The principal export crops are cocoa and rubber, which together account for nearly 60 percent of non-oil merchandise exports.

The country's proven oil reserves, all located in the southeast and south-south coastal area, amount to an estimated 27 billion barrels, sufficient to last for about 37 years at the current rate of production. Annual production of 2 million barrels per day (mbd) compares favorably to 1.2 mbd in Mexico. Proven natural gas reserves are estimated at 174 trillion cubic feet (equivalent to 30 billion barrels of crude oil), with an energy content slightly higher than the country's oil reserves. These reserves are comparable to those of Algeria, and will last for 110 years at current production levels. Nearly 80 percent of the natural gas produced is presently being flared and most of the remaining 20 percent is used for electricity generation. It is expected that the export of gas will be substantial after the year 2004. Nigeria's rivers also constitute a substantial energy resource, providing the country with nearly half of its electricity.
Nigeria is also blessed with abundant solid minerals deposits including, coal, tin ore, kaolin, gypsum, columbite, gold, gemstones, barites, graphite, marble, tantalite, uranium, salt, soda, and sulphur. The main non-oil exports include: cocoa, coffee, copra, cotton, ginger, groundnut, groundnut oil, gum Arabic, palm oil, rubber, soya bean, and timber.

Nigeria has about 40 universities and boasts of an educated labour force. Limited information is available on the size and the quality of Nigeria's labor force other than what can be inferred from broad social indicators. Various independent estimates put the unemployment and underemployment figures at around 40 percent of the labor force—with a very high rate of graduate unemployment. The adult illiteracy rate is 49 percent. About 76 percent of children of primary school age attend school; the participation rate falls to 20 percent for children of secondary school age. Average life expectancy at birth is 51 years.

Capacity utilization in industry is about 40 percent--- with 60 percent of installed (usable) capacity idle. Furthermore, independent estimates put the stock of capital flight to more than $30 billion. This means that if appropriate policies and enabling environment are in place to induce wealth owners to repatriate just the interest earnings on their assets, Nigeria could reap $3-5 billion per annum in return 'FDI'--- an amount which is multiples of current FDI inflow of barely $1 billion per annum. Furthermore, Nigeria has a large domestic market—which could serve as a springboard for entering export markets in Africa and internationally. These and many other national assets could pave the way for seizing the many development opportunities, which exist in the wake of globalization of industry, trade, investment and cross-border cooperation. With skilful management such opportunities could be converted into achievements towards raising income per capita, creating employment and fighting poverty. These opportunities, however, have as yet largely remained unrealized.

Sources:

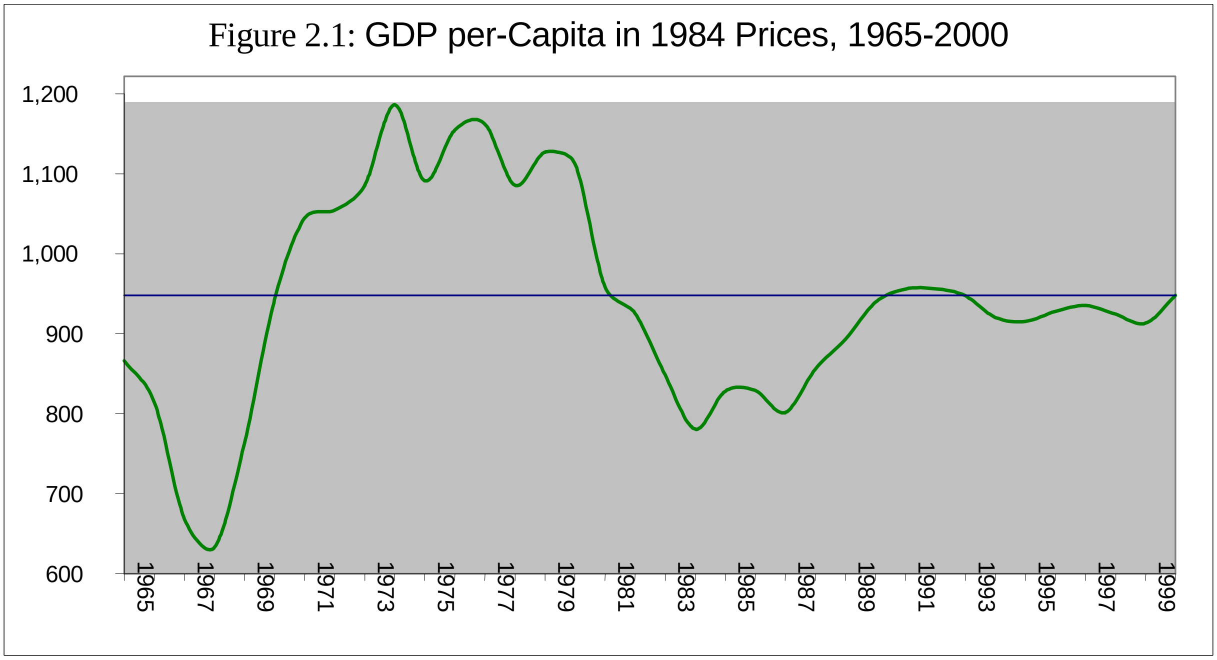
4. Moser et al, 1997 (p.5)
5. Nigeria IPRSP (Draft) September 2002
6. Other Government publications

2: Structure and Performance of the Macroeconomy

In this section, we assess the structure and performance of aggregate output, income and expenditure. A growth decomposition in terms of the sectoral sources of growth, and growth accounting in terms of the contributions of key factors of production to growth—labor, capital, and efficiency of resource use—are also undertaken. A key finding is that of lost decades in terms of economic performance--- with major structural and macroeconomic imbalances, and the challenge of initiating rapid growth and structural-social transformation. Economic growth has been stagnant, and the structure of production characterized by increasing dominance of the primary sectors (and declining secondary sector), lack of structural diversification, and very low total factor productivity growth. The structure of income is highly skewed, suggesting non-inclusive growth and hence the rising incidence of poverty. Aggregate expenditure pattern is skewed towards consumption and low savings despite the dominance of operating surpluses. The economy has been trapped in low savings-low investment equilibrium, with excess capacity and massive unemployment. Imports are dominated by consumer goods and raw materials underscoring the uncompetitive domestic production. More fundamentally, performance has been characterized by atypical volatility of major macroeconomic aggregates.

2.1: Macroeconomic Indicators

Nigeria's aggregate economic growth performance has been disappointing since independence, with an average long-run per-capita income growth of merely 0.1 percent per annum (see Soludo 2001, Addison 2002).



Appendix Tables 2 and 3 put Nigeria in both global and regional perspectives, while table 4 contains a detailed summary of Nigeria's macroeconomic indicators in recent years. Seen from a global and regional perspective, Nigeria still ranks at near bottom of the global league of nations. On all counts, Nigeria is a desperately poor country, with its per capita income less than half of the sub-Saharan Africa's average (in PPP terms), and its relative ranking has not improved in recent years. The comparative performance is all the more disappointing if the country's abundant human and natural resources are taken into account.

In the last four years of democratic experiment (1999- 2002), and despite the jump in oil prices, aggregate GDP growth rate has averaged 3.4 percent, with per capita income growth rate of 0.6 percent. This growth performance is certainly better than the average of 2.8% for the decade of the 1990s (although worse than the average growth rate of 5% per annum recorded during the Structural Adjustment Programme, SAP, period 1987- 92). But this relatively 'better performance' than the 1990s is not good enough, as it is still far below the minimum growth rate of 5% required to prevent poverty from worsening or the required 7-8% to achieve the MDG of halving the incidence of poverty by 2015.

2.1.1: Aggregate Growth Accounting

What have been the sources of Nigeria's growth performance? The aggregate picture described above masks the spatial and sectoral sources of growth.

A key feature of the Nigerian economy is the spatial unevenness—in terms of the geographical distribution of productive assets and wealth. Although the regional distribution of population is highly contentious in Nigeria, there is evidence to suggest that the population distribution is broadly around 45% (South) and 55% (North). But the distribution of Nigeria's GDP shows that economic activity is concentrated in the South---the South accounts for 65% of GDP while the North's share is 35%, and there is great unevenness among the six geo-political zones (see table 2.1 below). Currently, almost all of Nigeria's oil exports come from the South-South and the South East geo-political zones, and Lagos remains the country's commercial capital—with the Lagos-Ibadan industrial complex accounting for more than 50 percent of the country's industrial sector.

Table 2.1: Regional Distribution of Nigeria's GDP

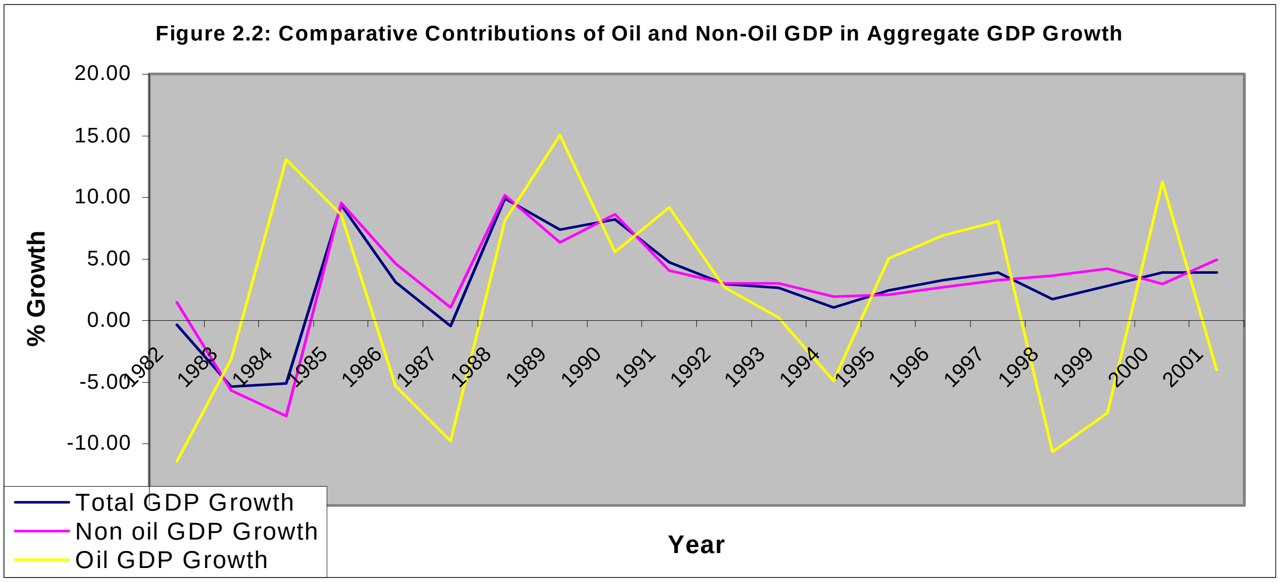
	Region (Six Political Zones)	Shares of GDP (Percentages)
1.	North-Central (Middle Belt)	3.5307
2.	North-East	9.624
3.	North-West	21.976
	Sub-Total: Northern Region	**35.1299**
4.	South-East	7.984
5.	South-South (Southern Minorities)	33.222
6.	South-West	23.665
	Sub-Total: Southern Region	**64.8701**
	TOTAL	100

Source: Soludo, 1999.

Structurally, the Nigerian economy can be divided into three parts--- oil and gas sector, the government sector, and the rest of the economy (World Bank, 2001). This is an important classification in thinking about the sources of shocks and economic performance in Nigeria. Much of the later analysis in this Report hinges on this tripartite structure.

Oil has been a key sector of the Nigerian economy since the first oil boom of 1973/74. Although in many ways, the oil economy is an enclave sector of the Nigerian economy with little forward and backward linkages with the rest of the economy, the sector is still decisive for economic performance. The sector accounts for about 95 percent of foreign exchange earnings, and over 60 percent of government revenues. The impact is mostly through the income effect mediated through public spending and imports. Much of the modern productive (non-oil private) sector depends on imported inputs and the oil sector provides the required foreign exchange. More fundamentally, the higher revenue from the oil sector enables much higher government consumption and investment. In an economy where a major activity of the private sector is driven by government contracts and patronage, developments in the oil sector largely drive the rest of the economy.

Figure 2.2 below plots the total, oil, and non-oil GDP growth rates for the period 1981-2001, and captures the cyclical trends in the oil and total GDP. Oil GDP (13 percent in real terms but 37 percent in nominal terms) is clearly more volatile than the non-oil GDP. The volatility in oil prices means that the sector can experience rapid growth in value added in one year followed by an equally rapid decline in the succeeding year--- and historically the wide swings in the sector's value added has been reflected in volatile growth rates (see figure 2.2). While the non-oil GDP closely tracks the total GDP, there is evidence that the oil GDP leads the cyclical trend in both the non-oil and total GDP. In other words, a fall in oil GDP ultimately leads to a fall in non-oil GDP. Changes in oil prices could therefore have both contemporaneous and lagged effects on general economic performance. The direct beneficiaries of the oil sector are the Government and the oil companies, and the impact on the poor largely depends on the quality and composition of government spending resulting from the oil sector.



Another feature of the growth performance is that the growth of the non-oil GDP has been at its best in the last four years within the last 25 years (except the SAP period). At an average annual growth of about 4.4 percent, its growth rate is stronger than the aggregate average of 3.4, with the volatility in oil GDP costing a 1 percent growth of GDP.

Tables 2.2 and 2.3 below, as well as appendix tables 5a and 5b illustrate the structure of production in Nigeria, the long-term transformations that have taken place, and the volatility of individual sector's growth performance.

Table 2. 2: Structure of Output (Percentage of GDP)

Sectoral Group	1990	1995	1999	2001
Primary Sector (Agriculture)	39.05	38.75	40.64	41.06
Primary sector (mining and quarrying)	13.18	12.93	11.46	11.27
Total (Primary Sectors)	**52.23**	**51.67**	**52.10**	**52.33**
Secondary Sector	**10.61**	**9.23**	**8.50**	**8.70**
Tertiary sector	**37.15**	**39.10**	**39.40**	**38.97**
Total Value-Added	100.0	100.0	100.0	100.0
Diversification Index	1.31	1.34	1.36	1.35

Source: Ajakaiye, 2002; Data from Federal Office of Statistics

Table 2.3: Sectoral Composition of GDP for 1965-2000[a/]

	GDP Shares 1965 (%)	GDP Shares 2000 (%)	Average Growth Rates (%)	Contribution to GDP Growth (%)	Standard Deviation Growth (%)	Per-Capita Growth (%)
	1	**2**	**3**	**4**	**5**	**6**
Total GDP at Factor Cost	100	100	3.0	100	8.3	0.1
A. Mining & Quarrying (Oil)	8	13	3.9	16	25.8	0.9
B. Other (Non-Oil)	92	87	2.9	84	7.2	0.0
1. Agriculture	68	43	1.7	24	8.0	-1.2
2. Manufacturing	3	7	4.9	11	20.6	1.9
3. Construction	3	1	0.3	0	38.3	-2.6
4. Services	19	36	5.0	49	8.5	2.0
Population (Millions) b/	46	127	2.9	n/a	n/a	n/a
Urban Population (%)	17	44				

a. From data based on constant 1984 prices.
b. UN estimate.
Source: Addison, 2002

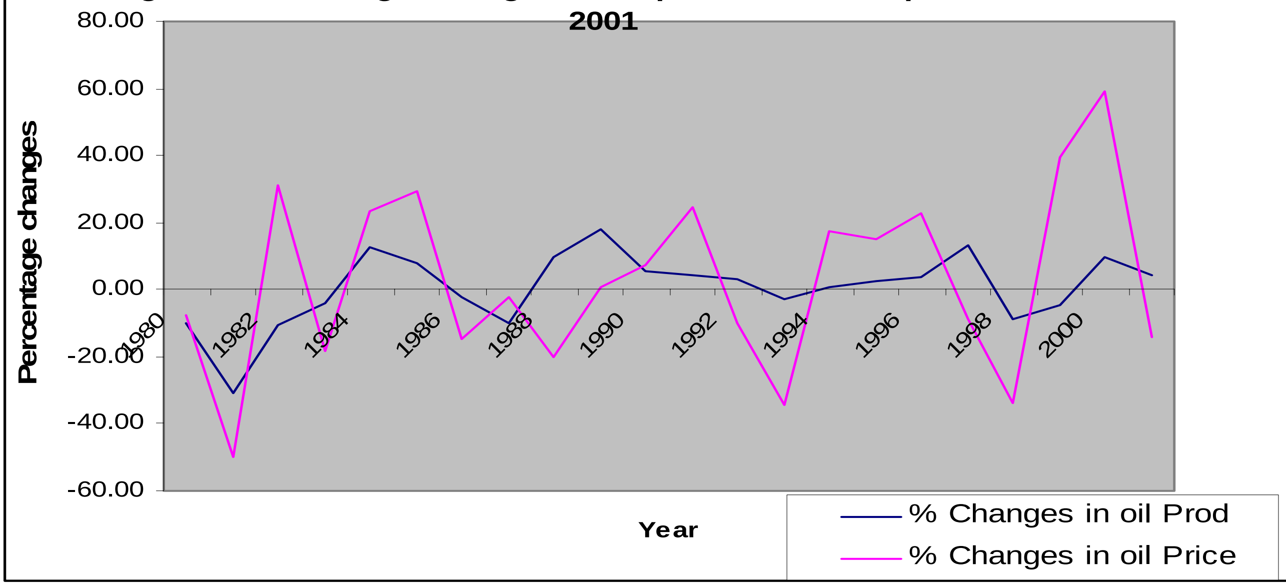
Taken together, tables 2.2 and 2.3 above tell interesting stories about the long-term structural transformations. The first point to note is that the non-oil sector continues to dominate the economy with the relative share marginally falling from (92 percent in 1965 to 87 percent in 2000. Of this, agriculture continues to dominate, with about 40 percent of GDP in 2001). Agriculture and mining constitute the primary sector and both account for more than 50 percent of GDP--- and in the last five years, the share of the primary sector seems to have stabilized in its dominant position. At the same time, the share of the secondary sector--- mainly manufacturing--- has been falling or stagnating. This dominance of the primary sector and the evidence of lack of structural diversification is clearly at odds with the Government's professed goal of economic policy since independence in 1960, namely, to alter the structure of production, diversify the economic base, reduce dependence on oil and imports, secure inclusive and non-inflationary growth and reduce poverty.

A second point to be emphasized is the increasing urbanization rate (5 percent per annum) and hence the rapid growth in the share of services in total output. From about 17 percent in 1965, Nigeria's urban population grew rapidly to about 44 percent of the population in 2000 (or approximately 56 million Nigerians). In tandem with the rapid urbanization, the services sector became the leading sector in terms of growth, and contributing an average of 5 percent to growth (compared to agriculture's 1.7 percent), and indeed the services sector contributed nearly half (49 percent) of Nigeria's total growth from 1965 to 2000.

The implication of the disjuncture between the increasing urbanization rate and the growth of the secondary sector (especially labour-intensive manufacturing) must be highlighted. First, the booming urban population cannot find jobs and urban unemployment is acute, resulting in very high crime rates and the desperate resort of the educated youths to other aspects of the international criminal economy--- drug trafficking, prostitution, scams and frauds, human trafficking, etc. Second, the stagnation of the secondary sector implies little transformation of the output of the primary sector such that exports of the primary sector are largely unprocessed. Furthermore, the declining secondary sector also means that much of the local consumption of manufactured consumer goods comes from imports--- financed by the foreign exchange earnings from the enclave oil sector. This structural disjuncture is clearly unsustainable.

Another feature of the sectoral composition of production is the very high volatility of both the mining and quarrying (oil) sector and the construction sector—which is largely related to government's demand for construction services. For the oil sector, Figure 2.3 shows the relatively higher price volatility relative to production volatility. The least volatile is agriculture, but a standard deviation of 8 is not trivial. This largely reflects the vagaries of weather--- as Nigeria's agriculture is still rain-fed despite the presence of two large inland rivers—Niger and Benue. Total GDP is therefore volatile, and this volatility--- traced mainly to the oil sector--- is a major challenge for macroeconomic management.

Fig. 2.3 Percentage changes in oil production and prices, 1980-2001



Some key features of the economy can also be inferred by examining the structure of income (see table 2.4 below).

Table 2.4: Structure of Income: Composition of Value-Added, 1990- 2001 (Percentages of GDP)

Component	1990	1995	1999	2001
Compensation of Employees	28.71	11.31	16.55	30.13
Operating Surplus	68.34	87.71	82.14	67.02
Consumption of Fixed Capital	2.73	0.87	0.68	0.78
Indirect taxes	0.26	0.15	0.63	1.98
Subsidies	0.04	0.04	0.01	0.09
Total Value-Added	100	100	100	100

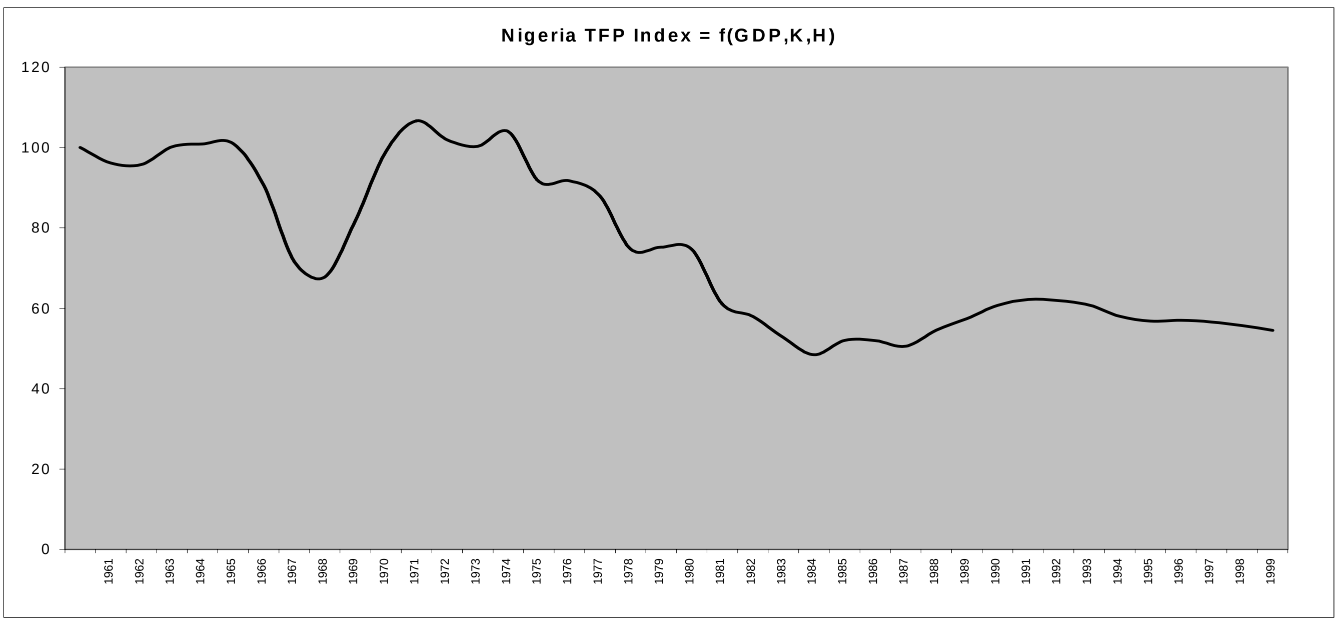
Source: Computed from Data from Federal Office of Statistics

This table is revealing in a number of ways. The share of wage income rises after wage increases but tends to fall afterwards (1990 increases, and again the wage hike in 2000). The share of profit income is quite high, partly underscoring the profitability of enterprises in Nigeria. The dominance of operating surplus—which should stimulate high savings and investment—however signals a non-inclusive growth. The low and falling share of depreciation could suggest very little additions to national productive asset. Indirect taxes partly reflect the activities of the secondary sector, and their low share underlines the point made earlier about the stagnation of this sector and the dominance of the informal (distributive trade) and peasant agriculture in total production.

2.1.1.a: Productivity growth:

Factor productivity in Nigeria is particularly low by any standard (see Iyoha and Oriakhi, 2002, and Addison 2002). This is not surprising especially given that industrial capacity utilization rate has varied between 30- 40 percent, and output has been driven largely by inefficient factor accumulation and rain-fed agriculture.

Figure 2.4: Total Factor Productivity, 1960-1999



Source: Addison 2002.

Table 2.5: Nigeria: Economy-wide Total Factor Productivity, 1961-1997 (%)

	1961-77	1978-87	1988-97	1961-1997
Real output per worker	6.58	-4.62	0.0688	1.96
Growth of capital per worker	0.62	2.58	-0.101	0.95
Contribution of capital per worker	0.22	0.90	-0.035	0.95
TFP	6.36	-5.52	0.723	1.62
Contribution of TFP growth to per capita output growth (%)	96.65	(119.5)	105.1	82.7

Note: $\alpha = 0.35$

Source: Iyoha and Oriakhi, 2002

The periodization shown in 2.5 above and the corresponding statistics on the contributions of capital and productivity to real output per worker is illuminating in that it reflects the major episodes of policy regimes/shocks. The major shock in the period of the 1960s to mid 1970s was the civil war (1967-70), and figure 2.4 shows a steep fall in the TFP during the period. It however rebounded strongly after the war. Although the growth rate of capital per worker was minimal during the period, TFP was strong overall and real output per capita grew very strongly as well. From about 1974/75, TFP began a precipitous decline—resulting in part from the Dutch disease of the oil price boom and the inability to translate government's huge spending into productive physical capital accumulation. Thus, in the period 1978-87—a period of huge capital accumulation, real output per worker and TFP fell by a large margin. Evidently, most of the 'capital accumulation' of the period was in wasteful spending (such as the steel mill and other white elephant public sector investments) and capital flight. In the period of the Structural Adjustment Programme, especially 1988-91, TFP grew by 5.3 percent per annum--- perhaps a result of the pressure to adjust and ensure efficiency of resource use. Over the period 1988-97, TFP grew by an average of 0.72, up from –5.52 in the preceding decade.

To sum up, factor productivity is very low and among other things, two key factors underlie this outcome. First, is the high but inefficient public sector investment. The second explanation pertains to the plethora of constraints on private sector investment—infrastructure, finance, declining educational standards, hostile business environment, policy uncertainty, etc --- that also constrain capacity utilization to no more than 40 percent. Private investment per capita is unusually low in Nigeria (we return to this point later).

2.2: Major Demand Aggregates/ Expenditures

Table 2.6 below provides insights into the structure of domestic aggregate demand. The major story that emerges is still the dominance of oil in determining government consumption behaviour, and the dominance of consumption over investment.

Table 2.6: Structure of Gross Domestic Expenditure, 1990- 2001 (Percentage of GDP)

	1990	1996	1997	1998	1999	2000	2001
Private Consumption Expenditure (% of GDP)	69.72	73	70.4	75.4	62.6	63.8	74.77
Percentage annual growth rate of real private consumption			-0.12	9.6	-15	5	
Government Final Consumption Expenditure (% of GDP)	8.02	13.8	14.8	15.7	26.1	24.9	17.7
Percentage annual growth rate of Govt. Final Consumption			10.2	8.4	71.1	-1.2	
Gross Capital Formation (% of GDP)	6.33	5.2	5.4	5.3	5.4	8	7.91
Percentage annual growth rate of real Gross Capital Formation			8	0.5	4.8	53.2	
Export of Goods and non-factor services (% of GDP)	19.99	12.7	15.6	9.3	10.8	16.7	32.92
Percentage annual growth rate of real			27.2	-	58.14	63.65	

Exports				39.45			
Less Imports of Goods and Non-factor services (% GDP)	4.06	4.7	6.2	5.6	4.9	13.4	7.27
Percentage annual growth rate of real imports			35.1	-6	-10.1	181	

Sources: Central Bank of Nigeria, *Annual Report and Statement of Accounts, Various Issues;* and Federal Office of Statistics, Lagos

In terms of size, the contribution of the oil sector to GDP is small. However, the fuller impact of the income effect of the positive terms of trade resulting from the oil price boom (especially since 1999) can be inferred from the expenditure components of GDP—which are largely driven by the oil revenues and foreign exchange. Notice from 2.6 above that gross capital formation increased by 53 percent in 2000, up from a growth rate of 4.8% in 1999—driven by massive public sector investments. Exports maintained the strong growth started in 1999 (58% in 1999 and 64% in 2000) thereby providing the requisite foreign exchange to finance the massive imports which increased by 181 percent in 2000.

The cycle of boom and burst in Nigeria's aggregate demand is mostly fueled by oil price shocks and the government's reaction to them. As evident from table 2.7 below, significant (positive) terms of trade shock occurred since 1999.

2.7: Terms of Trade

Year	1980	1995	1996	1997	1998	1999	2000	2001	Av (95-2000)
Terms of Trade	178.5	100.0	122.2	125.4	87.1	112.2	185.0		122
Changes In Terms of Trade		-2.1	22.2	2.6	-30.5	28.9	64.9		14.3

Source: IMF: WEO Databank

Nigeria has not quite learnt how to manage these shocks. Each positive shock is treated as if it is permanent, while negative shocks are treated as though they are temporary. With each positive shock, government ratchets-up spending in tandem with the revenue inflows, while negative shocks elicit austerity measures but more often the reaction is to resort to public borrowing. As with the previous booms, the current government reviewed and more than doubled public sector wages--- to a point that many state governments are unable to pay civil service salaries as and when due and months of salary arrears are a regular feature of the public finance (we return to this issue later in the discussion of fiscal policy). The current government embarked on huge public sector investment---designed to address years of infrastructure decay. In the year 2001, the government budget envisaged an even greater public capital expenditure outlay than in 2000 (about 50 percent increase over the 2000 and about 250 percent over the 1999 level). However, the introduction of the various procurement rules and value-for-money audits of capital projects helped to slow down capital spending and also avoid waste in 2001.

2.2.1: Savings-Investment and External Balance

2.2.1.a: Domestic Savings Generation and Domestic Investment

Aside from the four years since the recent oil price boom (1999—2002), Nigeria has been a very low-savings country, averaging about 13 percent for the decade of the 1990s (see table 2.8 below, and appendix table 4). This compares with the savings rate of the least developed African countries (LDCs), but lower than the rate for oil producing countries, and also very low for an economy where operating surplus dominates income. This low savings rate is not surprising however given the government's fiscal position--- which is mostly in the dis-saving position, and the high poverty-high dependency ratio of the economy. As most people barely survive at the subsistence level, private savings rate is consequently low.

Table 2.8: National Savings and Investment as Percentage of GDP

	1990	1994	1996	1997	1998	1999	2000	2001	2002
Gross National Savings	6.3	12.1	12.8	13.9	9.2	18.3	28.3	26.2	22.1
Gross Fixed Capital Formation	16.2	5.8	5.1	5.4	5.3	4.9	5.4	6.3	5.5

Source: (see Appendix table 4)

An even more worrisome issue is the miniscule investment rate. A society that does not invest is a society that cannot grow. The bulk of investment is undertaken by the public sector, and the low private sector investment is essentially on account of the risky and uncertain investment climate, and the atypically high cost of doing business. Nigeria has a potentially large market (although the purchasing power in a $300 per capita economy is low). But investors are less enthusiastic to exploit this opportunity because of the risks and costs involved.

The composition of the investment undertaken shows the dominance of building and construction (see table 2.9 below)--- the result of public sector construction works such as the Abuja stadium, the infrastructure construction/rehabilitation of the former Petroleum Trust Fund, and the investments of the works and housing ministries at the Federal and State governments.

Table 2.9: Components of Capital Formation

Component of Capital Formation	1990	1995	1999
Building and Construction	61.01	74.00	71.01
Land Development	12.30	13.83	13.26
Transport Equipment	7.55	3.59	4.76
Machinery and Equipment	18.73	8.08	10.52
Breeding Stock	0.41	0.50	0.45
Total	100	100	100

Source: Federal Office of Statistics

From table 2.10, land development accounts for about 13 percent of investments--- a low share given the dominance of agriculture in total output. Agriculture is mostly dominated by the peasantry, with very low technology implements. The very low and even declining investment in machinery and equipment is due mostly to the stagnation of the secondary sector of the economy--- especially the manufacturing sector.

Foreign direct investment in Nigeria is also very low, and mostly goes into the mining and quarrying sector (especially oil). Investment in the non-oil economy is miniscule--- on account of the risks and cost of doing business (see section IV on constraints to private investment and firm competitiveness).

2.2.1.b: The Current Account and its Financing

Developments in Nigeria's external account are dominated by two key issues. The first is oil exports with all volatility in the terms of trade and an import structure dominated by consumer goods. The second is the external debt burden, with increasing difficulty at service payments.

Oil exports, albeit highly volatile but which accounts for about 95 percent of total exports, significantly drive developments in the country's trade account. In recent years, especially since 1999, oil exports have rebounded due to the boom in international oil market. Two factors led to this outcome. The first was the OPEC quota increase for Nigeria from 1.885 mbd in March to 2.033, 2.091, 2.157, and 2.178 mbd in April, July, October, and November 2000 respectively. These increases were designed to increase world supply and bring prices down to the OPEC reference ceiling price of US$28 per barrel. Out of the total daily production, 1.88 mbd was exported, up from 1.66 mbd in 1999. In 2000, the spot price of Nigeria's crude, the Bonny Light, averaged US$ 28.58 per barrel, representing an increase of 59.6 percent over the 1999 level of $17.91. This boom continued into 2001, and in 2002, OPEC cut back the country's production quota in order to shore up prices.

The results of the boom in the oil sector on both current account balance and reserves have been significant (see appendix table 4). In 2000 for instance, the Central Bank of Nigeria reported a positive current account balance of 14.2 percent of GDP—a large improvement from trend, while external reserves rose to US$9.9 billion—unprecedented in the last two decades. In 2001 the balance moderated to 4.8 percent while external reserves remained high at $10.4 billion. This is unlikely to be sustained in the medium terms as the estimated outcome for 2002 was a huge deficit of 8.2 percent due mainly to cutback in OPEC quota for Nigeria.

Changes in current account are driven mainly by developments in the trade account. With relatively high oil prices and rising production, the large deficit on the income account will tend to increase as oil company earnings increase. But the oil prices are unlikely to persist in the upward direction, thereby leading to a fall in export earnings. Probably, imports will not fall proportionately because of a combination of factors—the likely upturn in the economy, the increase in government capital expenditure and investment in offshore oil production, and the likely effects of further reduction in customs tariffs. Thus, the surplus in the trade account will not likely continue and the first signal of that is the estimated huge deficit in 2002. Furthermore, though the inflow of official multilateral and bilateral credit and aid into Nigeria has increased modestly since the return of democracy, it is estimated that the foreign assistance will remain relatively low as donors are still exercising a wait-and-see attitude towards Nigeria.

An interesting development in the external sector since the late 1990s is the changing structure of the use of foreign exchange and fears about the return of huge capital flight. In 1996, imports accounted for 92.5 percent of the use of foreign exchange while invisibles accounted for 7.5 percent. In 1999, invisibles increased to 12.1 percent, but in 2000 the share of invisibles almost doubled the 1999 figure to 22.5 percent while imports of goods accounted for 77.5 percent, down from 87.9 percent in 1999. Some analysts worry that the increasing share of the invisibles in the utilization of foreign exchange is an indication of the heightened capital flight. Nigeria has been one of the countries in Africa that suffered huge capital flight, even though the economy is grossly undercapitalized.

It is important to note the changing structure of the sectoral utilization of foreign exchange and structure of imports (see tables 2.10 and 2.11). Three key features of table 2.11 are worth highlighting. First, the share of the industrial sector in the utilization of foreign exchange has been falling (from 59.6% in 1996 to 39.3% in 2000). Second, is the asymmetry in the size of the production sectors and their shares in the utilization of foreign exchange. In 2000, the industrial sector accounted for 16.7 percent of GDP, but utilized 39 percent of foreign exchange, and the agricultural sector, which accounted for 41.5 percent of GDP utilized only 2.5 percent of foreign exchange for imported inputs. (This might, perhaps, reinforce the claim by some analysts that agriculture is being marginalized in the allocation of foreign exchange). Third, the share of finished goods in the utilization of foreign exchange, which had reached 37% and 36% respectively in 1998 and 1999, dropped to 31 percent in 2000.

Table 2.10: Sectoral Utilization of Foreign Exchange (US Dollars and Percentage Shares)

		1996 (US$) million	% Share	1997 (US$) million	% Share	1998 (US$)million	% Share	1999 (US$) million	% Share	2000 (US$) million	% Share
IMPORTS		2461.4	92.5	4397.0	91.4	4337.0	89.4	4925.4	87.9	6072.0	77.5
	Industrial Sector	1588.6	59.7	2913.2	60.6	2304.3	47.5	2634.4	47.0	3079.0	39.3
	Raw materials	1187.3	44.6	1486.3	30.9	1436.6	29.6	1644.3	29.4	2038.4	26.0
	Mach, Spare parts & CKD	401.3	15.1	1426.9	29.7	867.7	17.9	990.1	17.7	1040.6	13.3
	Agricultural Sector	53.7	2.0	46.6	1.0	93.3	1.9	84.5	1.5	194.2	2.5
	Finished Goods	723.3	27.2	1338.3	27.8	1801.4	37.1	2018.7	36.0	2442.3	31.2
	Transport	95.8	3.6	98.9	2.1	138.0	2.8	187.8	3.4	356.5	4.5
INVISIBLES		199.1	7.5	413.4	8.6	516.0	10.6	675.8	12.1	1764.2	22.5
TOTAL		2660.5	100.0	4810.4	100.0	4853.0	100.0	5601.2	100.0	7836.2	100.0

Source: Central Bank of Nigeria: Annual Report & Statement of Accounts, 2000.

Table 2.11: Imports By Major Groups (Percentage of Total Imports)

	1995	1996	1997	1998	1999	2000
CONSUMER GOODS	**32.0**	**39.0**	**38.0**	**39.0**	**40.0**	**39.0**
• Durable Goods	2.0	3.0	3.0	3.0	4.0	3.0
• Non-Durable	30.0	36.0	35.0	36.0	36.0	36.0
CAPITAL GOODS AND RAW MATERIALS	**68.0**	**61.0**	**62.0**	**61.0**	**60.0**	**61.0**
• Capital Goods	23.0	19.0	20.0	20.0	23.0	21.0
• Raw Materials	45.0	42.0	42.0	41.0	37.0	40.0

Source: Calculated from Central Bank of Nigeria, Annual Report and Statement of Accounts, 2000.

Table 2.11 presents a picture of a fairly stable structure of imports. Significant changes can only be observed when we compare the 1995 and the 2000 shares. The share of consumer goods has remained stable at about 39 percent since 1996, while the share of combined capital goods and raw materials has hovered between 60% and 62% since 1996. Non-durable consumer goods' share has remained at 36 percent of total imports while raw materials have continued to be the largest component of imports (45% in 1995, and 40% in 2000).

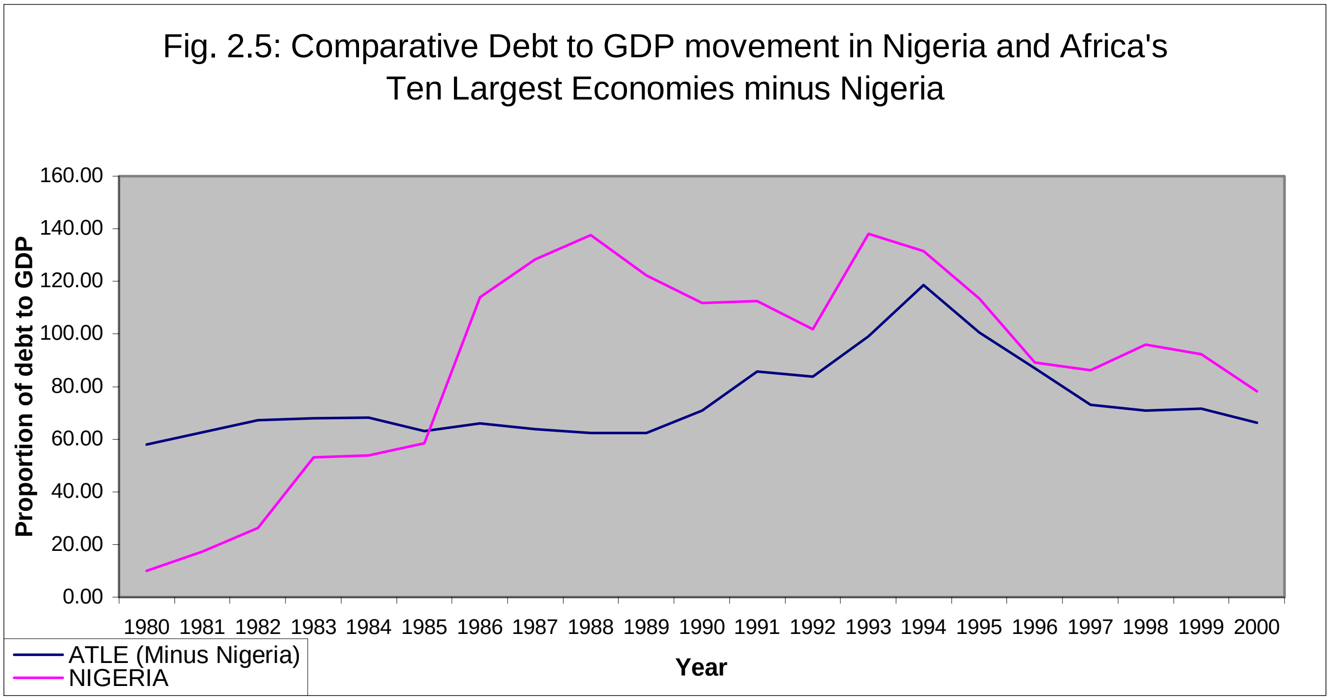
Perhaps, a very disturbing feature of the import structure is the rising share of food imports in total imports, which, in 2000 accounted for 14.4 percent of total imports, up from 8 percent in 1990. This is a very important policy concern as Nigeria is potentially likely to face a food crisis in the future. Currently, Nigeria is about the 10th most populous country in the world, and its population is projected to grow to between 235 and 250 million in 2025—bringing it into the five or six most populous countries. Given the rate of population growth, Nigeria is increasingly unable to feed its teeming population, and with the volatile oil export sector, the current rate of food imports is not sustainable. Nigeria therefore faces a major policy challenge of how to transform its agriculture and feed its population.

The external debt burden is another aspect of the current account, and Nigeria faces the acute challenge of debt management and sustainability, especially in the face of deteriorating social conditions. Nigeria's total debt stock stood at US$28.3 billion by the end of December 2001—about 60 percent of GDP (see appendix table 6 for summary of Nigeria's outstanding external debt obligations)[9]. Out of the total debt stock, $25 billion was owed to the official creditors--- $22 billion owed the Paris Club of creditors, $2.8 billion to the multilateral creditors; while $3.3 billion was owed the private (commercial) creditors. Nigeria has no outstanding credit or debt to the International Monetary Fund, but the Fund's power derives from its surveillance role and the fact that the debt service rescheduling arrangements with the Paris Club are predicated on the Fund's 'certification'.

By African standards, Nigeria's debt stock is high (see 2.5 below). Using the IMF (WEO) databank, it is shown that Nigeria's debt stock-to-GDP ratio is higher than the average for the group of Ten Largest African Economies (ATLE).

Much of the outstanding debt stock is accounted for by arrears of principal, interest, as well as late interest. Late interest is interest charged on defaulted debt service payments. So far, these arrears and penalties account for more than 60 percent of Nigeria's current debt stock. As shown in appendix table 7, the cumulative debt service payments since 1983 amounts to about $32 billion, far above the outstanding stock. The implication is that Nigeria has paid back about twice the amount it borrowed, and yet still owes $28 billion--- even with little or no new debt accumulation.

[9] The outstanding stock of US$28 billion is about $4 billion lower than the estimated amount by the IMF. As at September 2001, the Debt Management Office had completed reconciliation meetings with 13 out of the 14 creditor nations. The DMO also reviewed all the draft bilateral agreements prepared by twelve countries out of the 14 Paris Club of creditors to which Nigeria is indebted, and sent back its comments after preliminary negotiations were held with representatives of the countries. All the negotiated agreements were signed by end of December 2001.



Consequently, debt service payment has been heavy, with dire consequences for the economy (see Arikawe, 2002). Despite the fact that since 1986, Nigeria has limited the servicing of external debt to no more than 30 percent of exports, the debt service burden is still very high (see appendix table 7). Prior to the rescheduling agreements reached with the Paris Club of creditors, annual debt service due was in the range of $3.0 billion to $3.5 billion. Debt service due in 2000 was over US$3.1 billion (or 14.5% of export earnings) excluding arrears of US$19.6 billion owed essentially to the Paris Club. Actual servicing outlays in year 2000 was US$1.9 billion translating to about four times the Federal Government's budgetary allocation to education and about 12 times the allocation to health. In 2001, actual debt service was US$2.13 billion, which amounted to 6 times the Federal Government's allocation to education, and 17 times the allocation to the health sector.

Furthermore, appendix table 8 provides a projection of debt service payments until 2011. This is quite high (even under a ceteris paribus assumption, that is, assuming the Government does not significantly increase its borrowing, and also does not incur further arrears and penalties). Table 9 provides a scary picture for the state governments and the extent of their own indebtedness and repayments difficulties. The annual budget for the median state is about US$150 million, and most of the states are owing (on the average) about 4-7 months of civil service salaries in arrears. If the state governments fully service the debt service due, several of them would either have to massively borrow domestically even to meet the basic running cost of government, or simply go bankrupt.

Arikawe (2002) observes that another consequence of the debt overhang is the inflow of foreign investment and export guarantees. Because of Nigeria's problem with debt servicing, Export Credit Guarantee Agencies (ECGAs) suspended insurance cover for exports, not only of goods and services, but also of investment capital to the country. Without export credit cover and other facilities, Nigerian importers are required to provide 100 percent cash cover for all their orders and are, placed at competitive disadvantage compared to their counterparts elsewhere who have access to ECGA covers and import credit facilities.

The Nigerian Government continues to argue that it needs significant debt relief and increased inflows of ODA in view of the enormous needs for economic reconstruction following the devastating neglect of economic and social infrastructure in previous years--- roads that need rehabilitation, schools that need to be staffed, health centers which need to be furnished and supplied. So far, Nigeria is atypical in Sub-saharan Africa in that contrary to an average annual ODA receipt of more than 10 percent of GDP, Nigeria receives a paltry 0.2—1.0 percent of GDP. Net transfers from official donors are therefore negative---meaning that Nigeria actually pays more to the donors than it receives. Thus, the case for deep debt relief is strengthened by this fact, and also the fact that US$19 billion of the outstanding debt is accounted for by arrears and penalties and that Nigeria has cumulatively paid back over $32 billion from a debt of less than US$18 billion, and yet its stock of debt has been growing with little new borrowing.

For the international community, the reluctance to oblige Nigeria's quest for debt relief is hinged on two issues--- Nigeria's potential wealth (and more so, the buoyant oil prices), and concerns about the inefficiency of use of existing resources. With the enlarging reserves (sometimes high enough to exceed five months of import cover), the donors have difficulty discussing financing gaps--- at least in technical terms. There are also justifiable concerns that the effectiveness with which the public sector intermediates resources remains compromised by weaknesses in governance and institutional capacity. Sometimes, the priorities chosen by the government (for example, the estimated over US$500 million spent on the Abuja Stadium when the National Stadium in Lagos has a capacity utilization of about 7 percent) gives the impression that greater inflow of resources might not necessarily be used for poverty alleviation.

2.3: Macroeconomic Policy and Stability

A major part of the story of Nigeria's economic stagnation is the mismanagement of its macroeconomic policy. Some of the major themes in the country's macroeconomic policy stance are also similar to the issues pertaining to the structure of income and production--- volatility of major macro aggregates, the Dutch disease syndrome of an oil economy, poor monetary and fiscal policy design and implementation, frequent policy reversals to the extent that announced policies are often not credible to the private agents, and weak institutional capacity for economic policy coordination and governance.

A distinguishing feature of the macro economy is the high volatility of the economic aggregates relative to other countries[10]. Table 2.12 below shows the relative ranking of Nigeria among over 100 developing countries in terms of macro volatility. The table includes several key economic indicators of real growth and prices as well as monetary growth. Volatility is calculated here as the standard deviation of real growth rates, price inflation and monetary growth.[11] The number of countries sampled is quite large and is limited only by data availability.

[10] See Addison, 2002 for detailed discussion of this issue, and the analysis here is based on his paper.

[11] A related approach is to calculate deviations from a trend. For example, long-run consumer price inflation might be trending upward and everyone might be expecting this. The element of uncertainty could be proxied by deviations from the trend.

Table 2.12: Measures of Macroeconomic Volatility, 1960-2000

		1961-2000 *a/*			***1991-2000*** *b/*		
	Sample Size	***Nigeria Rank***	***Median (%)***	***Nigeria (%)***	***Nigeria Rank***	***Median (%)***	***Nigeria (%)***
Real Growth per-Capita c/							
GDP	87	9	4	8	68	3	2
Private Consumption	108	9	6	14	4	5	20
Private Investment	34	5	22	67	3	19	67
Revenue d/	71	3	11	41	2	10	47
Price Inflation							
Terms of Trade e/	90	3	10	27	3	7	28
Consumer Prices	114	21	7	19	9	3	25
Real Exchange Rate ($/N) f/	84	4	7	31	2	5	35
Policy							
Monetary Growth	125	32	14	20	33	9	16

a. Countries with 15 or more observations in the period. Most countries (80%) had observations for 20 years or more.
b. Countries with 9 or more observations in the period. For revenue, it was 8 or more observations.
c. Post-1981 data are under review.
d. Nigerian data include stabilization account drawings in 1995 and 1999.
e. Nigeria is 1rst out of 110 countries for the standard deviation of terms of trade in levels, 1960-00.
f. Long-run average is for 1979-2000. IMF did not provide data prior to this period.
Source: Addison, 2002.

This table leads to a striking conclusion. Nigeria ranks among the top ten most volatile countries for the period 1961-2000 for all indicators except monetary growth and consumer price inflation. Moreover, Nigeria is in the top five countries for the volatility of private investment per capita, government revenues per capita, terms of trade shocks and real exchange rate shocks.[12] When the time period is shortened to 1991-2000, Nigeria remains in the top ten most volatile countries for all measures except GDP growth. In addition, Nigeria's consumer price inflation, which had been ranked 21 out of 114 for the longer period, is now ranked 9th out of 114 for 1991-2000.

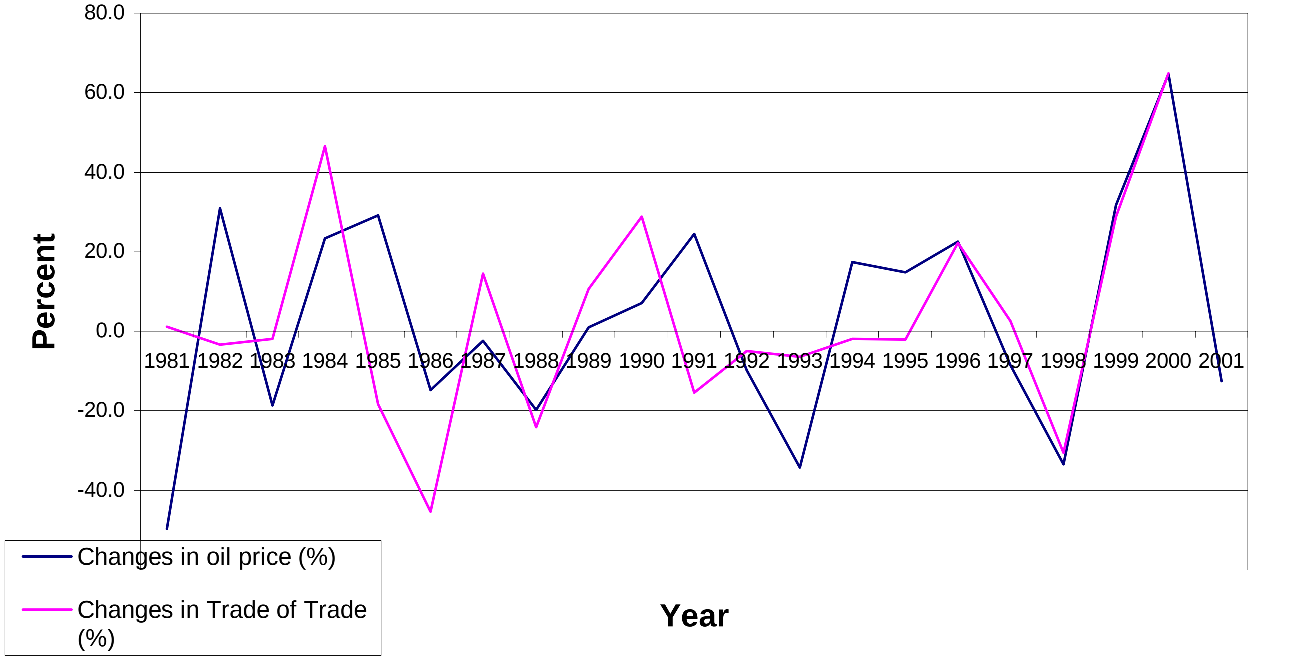
These volatile macro aggregates have severe impacts on the economy---the terms of trade which impacts on growth, revenues which impact on the efficacy of public service delivery, the real exchange rate which impact on private investment, etc. Addison (2002) estimates that oil volatility and real exchange rate uncertainty have penalized growth by 2.4 percent per annum on an ongoing basis. Volatility in ToT causes uncertainty and investors often choose to exercise their option to

[12] The volatility of Nigeria's terms of trade *index* over the period 1960-00 is the highest in a sample of 110 countries. Nigeria is ranked third in a sample of 90 countries for the volatility of terms of trade *growth*.

wait--- leading to investment pulse. Beside the impact on other variables, volatility is a key challenge in the design and implementation of macroeconomic policy, and any agenda for Nigeria's economic renewal must recognize this issue.

The major source of Nigeria's volatile ToT is the oil sector--- with exports concentrated on the oil sector (95 percent) relative to the diversified import structure. Movements in oil prices and the ToT are highly correlated (see Figure 2.6 below). Diversification of the export base, especially away from the primary commodity sector such as oil and gas, into manufactures and services would be the winning strategy against ToT volatility.

Fig. 2.6: Proportional Co-movements of Changes in oil price and terms of trade



Source: Underlying data from Central Bank of Nigeria, 2001

What is however contentious is the extent to which macro volatility is the cause or the consequence of Nigeria's poor economic policy design and governance. One line of argument is that the highly volatile terms of trade shocks interact with weak institutions of economic governance to inflict severe policy outcomes. The other side of the argument is that Nigeria's weak institutions and inability to manage the economy are to blame--- because other countries that experienced similar external shocks but managed their economies better had different outcomes. In this instance, the oft-cited comparison between Nigeria and Indonesia is apt (see Box 2.1 and table 2.13 below).

Box 2.1: Nigeria and Indonesia: Two Similar Countries, Two Different Policy Regimes, Two Different Outcomes

Nigeria and Indonesia are comparable in many respects—both are heavily populated, multi-ethnic, multi-religious, and in the 1960s and 1970s largely peasant agricultural societies, with comparable income levels. Both countries also experienced oil boom about the same time but both countries chose different paths in terms of policy regimes and after some decades, the economic development of the two countries has diverged significantly, with Indonesia becoming substantially wealthier. While real per capita GDP stagnated at about US$250 in Nigeria between 1960 and 1999, GDP per capita in Indonesia increased fourfold during the same period (from US$249 to US$962). Other indicators of human development, as reported in the table 2.14 below, tell a similar story. Relatively prudent fiscal, monetary and exchange rate policies combined with market oriented policies towards agriculture and light manufacturing, explain in part why Indonesia fared better than Nigeria in spite of the severe financial and economic crisis experienced by Indonesia in 1998 and clear evidence of corruption and mismanagement. Very high macroeconomic volatility has also constrained Nigerian economic growth for the last three decades.

Following the oil booms, Indonesia pursued a loose rule of fiscal balance, while Nigeria experienced large increase in public spending and fiscal deficits. In Indonesia, the overall fiscal deficit fluctuated around 2 percent of GDP until 1990 and was roughly in balance during the 1990s. Nigeria's budget deficit increased dramatically from the early 1970s as expenditures rose faster than revenues. The federal government deficit has remained above 4 percent of GDP for most years since 1975, and sometimes substantially higher.

As a response to terms of trade shocks in the 1970s and 1980s, Indonesia focused on maintaining a competitive exchange rate through successive devaluations of its fixed exchange rate, which contrasted with Nigeria's consistently overhauled exchange rate. The fiscal stance eased the conduct of Indonesia's monetary policy, as inflation remained the single-digit range for most the 1980s of the 1990s, even though two peaks (40.6% in 1974 and 18%) followed the oil booms. During the 1970s and 1980s, Indonesia maintained a convertible fixed exchange rates, adjusted with successive devaluations (1978, 1983, 1986 and more frequently throughout the 1990s) and reinforced by a progressive accumulation of foreign reserves. In Nigeria, the exchange rate was not adjusted in response to a sharp revaluation of the real exchange rate. Only after depleting its foreign reserves was the country forced into devaluation (1986).
Indonesia pursued sectoral policies aimed at encouraging competitiveness of the non-oil sector, with special emphasis on agriculture and export-oriented industries. The Nigerian experience is substantially different, as large public investment projects and restrictive trade policies to have protected the domestic manufacturing sector.

Consequently, the share of non-oil exports in total exports increased from 16 percent in 1970 to 87 percent in 1999 in Indonesia, while non-oil exports from Nigeria declined to 2 percent of total exports from 52.3 percent over the same period. Food imports account today for a larger proportion of total merchandise imports than in 1970 (27.0 percent, up from 8.3 percent in 1970).

Table 2.13: Nigeria and Indonesia: Selected Indicators, 1960-99

	Nigeria					**Indonesia**				
Economic development	**1960**	**1970**	**1980**	**1990**	**1999**	**1960**	**1970**	**1980**	**1990**	**1999**
GDP per capita (constant 1995 US$)	224	264	314	258	250	249	298	504	778	962
GDP per capita, PPP 1/	-	405	607	767	858	-	468	871	1960	2857
Social Indicators										
Infant mortality (per	188.6	139.4	99.4	86.4	84.4	137.8	118.0	90.0	60.0	41.9

1000)										
Life expectancy at birth (years)	39.7	42.9	45.8	49.1	47.5	41.5	47.9	54.8	61.7	65.7
Illiteracy rate (percent of adults)	-	79.9	67.1	51.4	37.6	-	43.7	30.7	20.3	13.7
Oil and Non-Oil Sector										
Oil revenue (percent total) 2/	-	26.3	81.1	72.6	76.3	-	20.3	68.2	42.0	29.4
Non-oil exports (percent total)	97.2	52.3	16.3	3.7	2.1	68.3	156.4	74.6	80.0	86.9
Food imports (percent merchandise imports) 3/	9.3	8.3	15.1	6.4	27.0	17.9	15.4	12.7	5.1	8.8
Source: World Bank, World Development Indicators, 2002; and IMF, 2002 WEO database and International Financial Statistics.										
1/ The series is available from 1975; 1975 data are reported for 1970										
2/ CBN Statistical Bulletin (Nigeria).										
3/ When no data are available for the specific year of reference, the closest year with available data is used										

Another theme in the discourse of macroeconomic policy is the problem of frequent reversals of announced policies and the inability of Government to meet key macroeconomic policy targets. This is an important issue, not only for Nigerians but even more so, for the donor agencies especially the IMF surveillance teams which have often complained of Nigeria’s persistent missing of the agreed macroeconomic benchmarks and targets. Indeed, in 2002 the IMF Monitoring arrangement was ‘suspended’ on account of this persistent failure to meet the targets the Government signed with the IMF (see Box 2.2 and appendix table 10 for implementation record on IMF programmes).

Box 2.2. Nigeria's Experience with Fund-Supported Structural Adjustment Programmes

Nigeria's implementation record with Fund-supported programs (1986-2002) has been generally disappointing and marked by frequent reversals. To illustrate, the experience during the SAP era, 1986-92 is apt.

Nigeria's adjustment efforts were supported by three stand-by agreements (SBA) between 1986 and 1992, spanning a non-continuous period of 42 months. The fund committed a total of SDR 1.44 billion, but Nigeria decided based on the results of a national referendum, not to make purchases under these arrangements. The arrangements with the fund opened the door of official debt rescheduling which was a high priority for the authorities. The fund program (January 1987-January 1988) quickly went off track; the second (February 1989-may 1990) was successfully implemented and the third (January 1991- April 1992) also went off track soon after its approval.

The three SBA's focused on fiscal adjustment and were designed against the background of volatile world oil prices. The last two SBA's incorporated some form of fiscal stabilization mechanism, which took account of deviations from programmed oil prices. Over time, the stabilization mechanism did not prove very useful, as it became a major source of funding of extra-budgetary projects. The first SBA incorporated a major exchange market reform and other liberalization measures, including a substantial increase in retail prices of petroleum products. It went off track early because of the diversion of oil revenue, which caused a budgetary shortfall and led to the accumulation of external payment arrears. The second SBA focused on fiscal adjustment, consolidation of earlier foreign exchange system reforms, adjustment of domestic petroleum product prices, and measures to strengthen the banking system. This program benefited from the recovery in oil prices, which in combination with wide-ranging reforms at the outset of the SAP, led to a broad-based recovery of the economy. Fiscal adjustment was assisted by the establishment of a stabilization account to sterilize some of the windfall of oil receipts, while monetary growth was controlled, in part by the decision to transfer federal government accounts from commercial banks to the Central Bank in the summer of 1989. The vast improvement in the oil sector helped the country to achieve its macroeconomic objectives. The third SBA came in the aftermath of 1990 oil price boom and in the midst of heightened efforts to regain the momentum of the transition to civilian rule. The emphasis of the program was on fiscal adjustment, but it went off track in the first quarter of 1991, mainly because of uncontrolled growth in federal government expenditure.

In terms of design, the reform efforts undertaken under the different programs incorporated some structural fiscal reforms, particularly in the area of budgetary practices, public expenditure programming and management, oversight of state and local government budgets, and prioritization of investment projects under the rolling plan. However, these formal changes in official procedures had little effect on actual budgetary practices. Overall, fiscal adjustment was limited to short-lived stabilization measures without addressing the structural fiscal problems that were the root cause of Nigeria's internal and external imbalances. The lack of a durable fiscal adjustment, the inability to develop efficient allocative and distributional budgetary functions, and the backsliding in the implementation of key policies undermined domestic and international confidence in Nigeria's adjustment efforts.

Source: Moser et al, (1997)

We now focus on the specific policy areas that have impacted on macroeconomic outcomes. Four major clusters of policy reforms have underpinned economic performance, and further success or failure in them would largely determine the outcomes for the medium to longer terms. These include the challenges of: a) macroeconomic management of the wide gyrations in oil revenues and public spending in an efficient, non-inflationary, and sustainable-growth-inducing manner--- fiscal, monetary, and exchange rate policies; b) addressing infrastructure and institutional decay to ensure efficient public service delivery and national resource allocation; c) structural diversification and addressing human and material poverty—privatization, sectoral policies, and poverty alleviation measures; and d) integration of the Nigerian economy into the global and regional economies in a manner that also promotes economy-wide competitiveness—trade, industrial, competition and anti-trust policies, etc. The brief review below paints a broad brush of the policy thrusts, and does not provide detailed description of them.

2.3.1: Monetary and Exchange Rate Policy

2.3.1.a: Structure of the financial system:

The Central Bank of Nigeria (CBN) has responsibility for managing the monetary and exchange rate policy of the Government. To an extent, Nigeria's financial system is one of the most sophisticated in Africa—in terms of breadth and depth (see Appendix tables 11 and 12). While appendix table 11 summarizes the types and number of the financial institutions operating in the country, table 12 shows the frequently used indicators of stability and vulnerability in the financial system, as well as key statistics of the financial system. Compared to most Sub-Saharan African countries, Nigeria can be referred to as the financial supermarket in Africa. However, relative to the size of the economy and the financial needs, the financial system can be said to be underdeveloped and still faces enormous challenges (see Box 2.3 below).

Box 2.3 Financial System Stability Assessments

The financial system stability assessment (FSSA) concludes that the Nigerian financial system is vulnerable to a number of risks, and there are serious concerns about the soundness and stability of the banking system. The Nigerian anti-money-laundering (AML) legal framework and enforcement is also considered inadequate, making the system vulnerable to financial abuse. Inefficiencies, such as delays and backlogs, in operating the court system are also major impediments to the smooth functioning of the financial system. The authorities recognize most of the weakness noted in the report and have, on their own initiative reforms aimed at improving the soundness of the financial system. While welcoming these efforts, the FSSA emphasizes that more decisive actions are warranted, especially in banking, AMI efforts, and the upgrading of the payment system. The key conclusion and recommendation of the report are summarized as follows:

Macroeconomic Environment. The financial system remains vulnerable to several external risks, including (i) the economy's high dependence on volatile oil proceeds; (ii) economic mismanagement, in particular fiscal imprudence; and (iii) political uncertainty. Given the large size and role of the government in economic activity and its virtual monopoly over the country's export earnings, fiscal indiscipline is the single most important threat to the economy and the financial sector today. Adopting a prudent, medium term oriented fiscal policy and introducing more market-based mechanisms in the foreign exchange market and the domestic money market would help to reduce vulnerabilities, remove distortions, and, hence, improve the efficiency of the financial system.

Banking Sector. Recent developments in the banking sector, including increased signs and incidence of distress, are a cause for serious concern and call for decisive and expeditious actions to safeguard the stability and soundness of the banking system. The observed distress in the banking system is likely to worsen if economic performance deteriorates. Hence, further banking system distress, including a systemic problem in the banking sector, cannot be confidently ruled out. The banking system continues to be characterized by (i) weak corporate governance; (ii) widespread insider lending; (iii) dependence on the government for business; (iv) high levels of non-performing loans and systematic under-provisioning; (v) persistent misreporting by many banks, which prevents detecting of emerging problems and precludes an accurate, risk-based analysis; and (vi) a high reliance on direct controls for prudential and liquidity management purposes, which has not only kept supervisors from making careful risk assessment of the industry, but has also stretched thin valuable supervisory resources.

The FSSA recommends, among others, that the authorities (i) take strong measures to better control insider lending; (ii) adopt a zero tolerance policy for the misreporting, under provisioning and violation of existing rules; (iii) introduce risk-weighted capital adequacy requirements in line with the Based Capital Accord; (iv) avoid open liquidity assistance to distressed banks; and (v) gradually reduce reliance on direct monetary controls (i.e., high liquid asses ratios) in managing liquidity in the financial system in favour of indirect instruments, such as open market operations, and strengthen monitoring of prudential limits such as net open foreign exchange exposures for risk assessment. In general, the FSSA recommends that the authorities adopt a risk-focused framework for supervision, including a forward-looking risk assessment. This would significantly improve Nigeria's compliance with the Based Core Principles.

Non-bank Financial Institutions: The non-banking sector is small and declining, and many institutions are insolvent. The sector has been poorly supervised and needs to be rebuilt on solid grounds. A prerequisite is to establish a regulatory and supervisory environment conducive to growth. To this end, the creation of the other financial institutions department (OFID) within the Central Bank of Nigeria (CBN) is a first step in the right direction. The FSSA recommends that OFID begin assisting troubled institutions (such as community banks) in preparing and implementing a restructuring plan, and that those that do not meet all licensing criteria should be given three years to comply. Going forward, the various acts underpinning this sector may need to be amended to provide deposit insurance for fully licensed community banks.

Anti-Money-Laundering Framework. Nigeria is on the financial action force (FATF) list of noncompliant countries. The authorities recognize that there is high risk of financial abuse in the financial system and have established an inter-ministerial AML steering committee to spearhead their efforts. Legislation has also been drafted that would criminalize the financing of terrorism and create a financial crime commission responsible for the implementation of the financial crime laws. The FSSA urges the authorities to quickly (i) enact comprehensive financial crime legislation; (ii) broaden under the current AML act/draft bill the definition of anti-money laundering and the scope of predicate offences; (iii) establish a financial intelligence unit empowered to investigate all money-laundering activities and provide information to the competent authorities; and (iv) have the steering committee adopt an expected action plan for carrying out needed reforms. Nigeria could benefit from technical assistance.

Payment System. The lack of failure to settle rules could potentially expose the CBN to significant losses should a bank fail with its settlement account substantially overdrawn. The payment system is also hampered by the poor state of automation lack of timely, comprehensive, and constant data. Upon recommendation and own initiative, the CBN plans to move to an automated check-clearing system and adopt a real time gross settlement system (RTGS).

Source: International Monetary Fund (IMF) Nigeria, Staff Report for the 2002 Article IV Consultation, Prepared by the Staff representative for the 2002 Consultation with Nigeria and Approved by Donal Donovan and Mark Allen, November 25th 2002 page 30-31.

But the capital market (one of the 15 out of 53 African countries) is poorly capitalized. For example, the stock market in Nigeria is very small compared even to those of other large economies in Africa like Egypt and South Africa. As at 2001, there were only 181 listed companies as against 746 in Egypt, 640 in South Africa, 693 in South Korea and 285 in Taiwan. In 1995, total market capitalization in African Stock Market was US$310 billion of which Nigeria’s share was only 0.65%. Consequently, the trading values turnover ratio and dividend yields are all very small. While South Africa has a market capitalization as a ratio of GDP of 209.5% in 1995, Nigeria’s market capitalization as a ratio of GDP was only 3.8% for the same period. The implication of this for private sector development (a current policy of the federal government) cannot be over emphasized. An active private sector requires the existence of a vibrant capital market. An active private sector and versatile capital market a necessary complements. Both require stable exchange rate, little or no legal obstacles to operation, establishment of enforceable property rights laws and institutions, and an active non-securities segment of the capital market to complement the stock exchange (UNDP, 2001).

2.3.1.b: Monetary policy

The objectives of monetary policy in Nigeria are many and varied. Every year, the CBN issues Monetary and Credit Policy Guidelines-, which spell out the broad objectives and instruments of monetary policy for the year. For example, the monetary policy objectives as spelt out in the 2001 circular No. 35 include the reduction of excess liquidity in the banking system, sustenance of a single digit inflation rate, maintenance of exchange rate stability, sustenance of a market based interest rate regime, promotion of non-inflationary growth, achievement of balance of payments viability and maintenance of financial sector stability (CBN 2001: 1).

The fundamental challenge of monetary policy is how to control monetary aggregates where the bulk of foreign exchange accrues to the Government, fiscal revenue is oil-dominated and all receipts are paid into the Federation account and shared out to the component governments, and each with statutory power to spend irrespective of the monetary policy implications. In effect, the final outcomes for monetary policy depend largely on the fiscal policy stance. Monetary policy in Nigeria mostly reacts to the government's fiscal behaviour in an attempt to accomplish the Central Bank of Nigeria's primary focus on price and exchange rate stability. Table 2.14 below demonstrates the yawning gap between the Central Bank's monetary targets and the outcomes—raising questions about the role and effectiveness of monetary policy in the context of Nigeria's peculiar fiscal structure. The persistent wide disparity between the targets and outcomes is because of the financing of the budget deficit and the Central Bank's inability to sterilize the huge liquidity impact of government spending.

Table 2.14: Monetary policy targets and actual performance, 1999—2001.

	1999		**2000**		**2001**	
	Target	**Actual**	**Target**	**Actual**	**Target**	**Actual**
Growth of M2	10.0	31.6	14.6	48.1	12.2	27.0
Growth of M1	4.1	18.0	9.8	62.2	4.3	28.1
Aggregate Bank Credit (% change)	18.3	30.0	27.8	-23.1	15.8	75.8
Net credit to Federal Govt.	10.2	32.0	37.8	-162.3	2.6	79.7
Credit to Private Sector	19.9	29.2	21.9	30.9	22.8	43.5
Inflation Rate	9.0	6.6	9.0	6.9	7.0	18.9
Growth in GDP	3.0	2.8	3.0	3.8	5.0	3.9
Accrued to External Reserves (US$ million)	500	1,650	500	4460.4	500	545.4
Naira to Dollar exchange rate (end of period)		98.2		110.1	--	113.5

<u>Source:</u> Central Bank of Nigeria, *Annual Report and Statement of Accounts*, various years.

Table 2.15 below illustrates the point that the major sources of instability in broad monetary aggregates are the volatile oil receipts (accounting for the swings in reserves), and Government's fiscal behaviour. Changes in domestic credit are dominated by the Government's borrowing requirements and the Central Bank's automatic accommodation of the Government's financing needs.

Table 2.15: Monetary survey: Contribution to the growth of M2 (percentages)

	1997	1998	1999	2000	2001
Net foreign assets	0.2	4.7	75.4	24.8	73.8
Net domestic assets	-1.5	16.4	-63.8	17.2	-25.4
Domestic credit	1.7	34.3	-12.7	60	-22.9
Net credit to the consolidated govt	16.5	21.8	-21.6	41.8	-42.3
Of which: Net credit to the federal govt	-1.4	21.9	-21.5	41.6	-43.1
Other items (net)	17.9	-17.9	-51	-42.9	-2.5
Velocity (non-oil GDP/broad money)	4.1	3.8	3.7	3.3	2.5

Sources: Central Bank of Nigeria and IMF staff estimates

Another important feature of monetary policy is the lopsided distribution of credit to the real economy. As shown in table 2.16 below, the liberalization of the credit market has severely penalized the allocation of credit to agriculture. Prior to the liberalization since the Structural Adjustment programme, direct instruments of monetary control were used, including statutory prescriptions for the percentages of total credit that should go to different sectors. Agriculture and Manufacturing sectors were then classified as the 'productive' sectors, and were prime priorities in credit allocation with total credit allocations of at least 50 percent.

The market evidently discriminates against the rather risky agricultural sector as indicated by the paltry credit to this dominant productive sector of the economy. Paradoxically, the stagnant manufacturing sector, accounting for about 6 percent of GDP, takes an average of 30 percent of credit, while the other sectors get the lion share of more than 50 percent of total credit.

Table 2.16: Sectoral Distribution of Bank Credit, 1997-2001 (In percent of total)

	1997	1998	1999	2000	2001
Commercial Banks					
Agriculture	11.6	10	8.3	9.1	7
Manufacturing	34.4	35.4	27.4	32.8	26
Other	54	35.3	64.3	58.1	67
Merchant Banks					
Agriculture	9.3	6	8.5	9.7	
Manufacturing	36	32.3	31.4	35.2	
Other	54.7	12.5	60.1	55.1	

Source: Central Bank of Nigeria

2.3.1.c: Interest rate policy

Since the liberalization of the interest regime to be market determined, a central challenge has been the persistent high real interest rate for borrowers and very low rates for depositors (large spread between deposit and lending rates). Table 2.17 below shows that sometimes, the real lending rate has exceeded 20 percent in real terms—a very high rate by international standards.

On the other hand, while real savings rate continue to be negative, real lending rates were around 20 percent for some years with enormous implications for the cost of doing business in Nigeria.

Currently, the commercial banks hardly accept time deposits for a period exceeding 180 days or they do not provide incentives for long term savings while they predominantly lend short-term. Yet, banking is about the most profitable industry in Nigeria today. The continued raising of the minimum rediscount rate and liquidity ratios provide incentives for banks to widen the gap between savings and lending rates. Furthermore, the widening gap between the official and parallel market exchange rates provides avenues for brisk business for banks. The risky investment climate cautions banks against long-term lending, while the huge returns on short-term activities such as commerce provide incentives to concentrate their portfolios on such activities.

Table 2.17: Selected Interest rates, 1997-2002 (In percent; end of period)

	1997	1998	1999	2000	2001	2002		
						Q1	Q2	Q3
Minimum Rediscount Rate	13.5	13.5	20	20.5	20.5	20.5	20.5	18.5
Treasury bill rate (stop rate)	12	12.5	14	20.5	20.5	22.5	19.8	16.5
Seven day NIBOR	-	16.8	15.9	25.3	25.3	24.5	24.4	19.4
Savings deposit rate	5.4	5.2	4.9	5	5	8.5	3.7	3.8
Prime lending rate	28	18.5	19.5	26	26	24.5	25.3	26.3
Maximum lending rate	20.8	20.9	21.8	27.2	26.4			35.0
Inflation Rate	8.5	10.0	6.6	6.9	19.0			14.0

Source: Central Bank of Nigeria

The pressure to find a solution to the high interest rate led the Bankers' Committee (in May 2002) to make several recommendations and bound its members to certain interest rate ceilings. The major aspect of the agreement was that Commercial Banks would peg their lending rate to no more than 4 percentage points above the Minimum Rediscount rate. Thus, when the CBN reduced the Minimum Rediscount rate by 200 basis points to 18.5 percent, the lending rate was pegged at no more than 22.5 percent. This rate applied only to the prime borrowers. However the commercial banks resort to all manner of 'other charges' that still ensure that effectively the real cost of funds is still very high. Indeed, even the 22.5 percent is still high given an inflation rate of 14 percent, that is, a real rate of about 8.5 percent. It is unlikely that the interest rates would come down quickly without a more prudent fiscal stance.

2.3.1.d: Exchange rate policy

The most important themes that emerge in the discussion of exchange rates and their management in Nigeria include the high volatility, real exchange rate overvaluation albeit in the context of continuous nominal depreciation, and the search for mechanism for market-determined rate where Government is the dominant supplier of foreign exchange. The real exchange rate has appreciated by over 25 percent between 1999 and 2001.

Exchange rate stability is one of the goals of monetary policy in Nigeria, and over the years exchange rate policy has been driven mostly by an obsession to keep the nominal exchange rate 'stable'. For the general public the health of the economy is gauged by the nominal exchange rate where a depreciating rate is synonymous with a weakening economy. Policymakers have also succumbed to this emotional pressure. Table 1.18 below presents some selected exchange rate indices and highlights the extent of distortions in the exchange rate regimes.

Table 2.18: Selected exchange rate indices 1980-2001

Period	*Nominal Exch. Rate N to US$1*	*Nominal Eff. Exchange Rate (1985=100)*	*Nominal Exchange Rate Premium (%)*	*Real Effective Exchange Rate (1985=100)*	*Parallel Market Exchange Rate*
1980-1985	0.70	108.27	164.24	87.81	1.97
1986-1999	5.20	19.24	41.22	100.86	6.91
1991-1995	18.61	3.32	114.73	89.66	42.73
1996-1998	21.89	0.80	289.78	140.50	85.31
1999-2001	105.50	0.20	9.83	79.95	114.31

Source: Central Bank of Nigeria, Annual Report and Statement of Accounts, various issues

Another key feature of the exchange regime is the huge premium (see table 2.19 above) which indicates the extent of distortions in the market. This has been due to the fixed regime until the mid 1980s, the managed float of the SAP era, the re-fixing of the official rate during the Abacha regime (1994- 1998) and thus the large disparity between the official and the parallel (free) market rates. Given the huge demand for foreign exchange for imports and sundry reasons, and also the fact that forex at the official rate was tightly regulated with strict documentation requirements, the parallel market boomed.

Real exchange rate (RER) volatility is another feature of the regime. The standard deviation in real exchange rate growth for 1961-70 was 4 percent. For the period 1991-2000—a period of greater liberalization, the standard deviation was 35 percent, with Nigeria having one of the most volatile RER regimes among developing countries. The RER was more stable during the fixed nominal exchange rate regime (1961-1985), and wide volatility started with the emergence of major oil earnings and fiscal imprudence, surging domestic price inflation, and futile efforts to manage the nominal exchange rate.

Figure 2.7: Volatility of Growth Rate for the Real Exchange Rate Index

Source: Addison 2002.

RER uncertainty (proxied by volatility) is of major concern because it inhibits private sector investment.[13] RER uncertainty affects the profitability of investments through price channels and through the cost of borrowing. Firm surveys in Nigeria confirm the concerns of the private investors regarding exchange rate uncertainty.

A critical issue faced by policymakers is how to avoid RER overvaluation and exchange rate premia through a market determined nominal exchange regime, especially where the Government is the major supplier of foreign exchange. The Central Bank has tried all manner of experiments in determining the official nominal rate--- which is essentially a managed float. Between 1999 and 2001, the CBN reverted to the pre-reform system of selling foreign exchange in the interbank foreign exchange market (IFEM) at a predetermined rate, and the interbank market split into the IFEM and the open inter-bank market—where banks traded among themselves at freely negotiated exchange rates (the NIFEX). The Bureau de Change and the parallel market for foreign exchange constitute the *free* markets—where no documentations are required for transactions in foreign exchange. In 2000, the exchange rate depreciated in all markets. At the IFEM, the Naira depreciated on the average by 6.5 percent to N101.65 to one US$. This was caused principally by a significant increase in import-driven demand for foreign exchange following the increased government expenditures: total demand for foreign exchange at the IFEM during the year was $6.9 billion compared with $4.9 billion in 1999. The parallel market depreciated by 30 percent between December 1999 and May 2001, and the differential with the IFEM rate widened to 20 percent. Following the excess liquidity triggered off by fiscal expansion, a foreign exchange 'crisis'—as it was referred to in the newspapers-- emerged in April 2001 when the CBN made a small adjustment of the IFEM rate before it had effectively mopped up the excess liquidity. The parallel market rate depreciated to N140 per US dollar in early April. The government sold large amounts of foreign exchange to deal

13 Bleaney and Greenaway (2000) and Serven (2002) use cross country panel data and find investment is reduced by real exchange rate instability.

with the crisis thereby depleting foreign reserves. As a consequence of this measure and other tighter monetary policy measures, the parallel market exchange rate appreciated from N140 to an average of N133 throughout the remainder of 2001, with the gap between the official and parallel market rates at 21 percent.

In 2002, the Central Bank reintroduced the Dutch Auction System (DAS)--- a system which had been tried at the introduction of SAP in the mid 1980s but which later collapsed. Since the current civilian government abolished the fixed (nominal) exchange rate of the Abacha era, the premium between the parallel and the official rates fell sharply from 289.8 percent to only 9.83 percent. With the introduction of the DAS, the premium has further reduced to about 7.8 percent. This is still high compared to the rates in many other developing countries where they are below 2 percent. Hopefully, the DAS (if allowed to stay and work properly) could significantly reduce or eliminate the exchange rate premium. But the obsession with the stability of the nominal exchange rate by policymakers is a possible constraint in allowing the rate to find its true market value.

2.3.2: Fiscal Policy and Budget Management

For all practical purposes, Nigeria's fiscal policy and budget management constitute the hub of macroeconomic policy, and every other macro policy derives from, or responds to, macroeconomic imbalances resulting from the fiscal policy stance. The size of consolidated public sector spending has grown from about 15 percent of GDP in 1970 to over 50 percent in 2001. Given the size of the public sector, and the fact that the private sector depends largely on the public sector, the annual budget is therefore a decisive policy document. Irrespective of the long-term plans embodied in the earlier 5-year Development Plans, the 3-year Rolling Plans, and the Vision 2010 documents, the short-term instruments of annual budgets dictate the gyrations of fiscal policy.

Fiscal policy and budget management in Nigeria have been characterized by fundamental challenges including: continued dominance of oil in government revenue despite decades of pledges to diversify the revenue base; high volatility of the revenue and expenditure--- leading to cycles of boom and burst in fiscal behaviour; inefficiency, waste and misplaced priorities in public spending; high fiscal deficits at all tiers of government; weak institutional structure and capacity for efficient and transparent budgetary management; and fiscal federalism that constrains credible revenue-expenditure stabilization programmes. The consequences of all these have been the escalating poverty—so-called poverty in the midst of plenty, heavy external and domestic debt burden (totaling about $28 billion) that is becoming unsustainable, huge civil service salary and pension arrears--- with some state governments owing between 4-6 months in salary arrears, and all the consequent distortions in the product and money markets. Any programme for Nigeria's economic renewal must seriously address the challenges of effective fiscal policy and budgetary management--- especially in the areas of institutional strengthening and capacity-building, re-engineering of the fiscal federalism to promote a medium-term expenditure framework among the three tiers of government, revenue diversification, and expenditure stabilization.

The overall fiscal position of Nigeria in recent years are shown in table 2.19 below and appendix table 13 in the appendix. From 1997, the size of the consolidated government in the economy has grown phenomenally—with government expenditure rising from 19 percent of GDP in 1997 to over 50 percent in 2001, with total debt service payments at over 6 percent of GDP. The size of state and local government relative to GDP has also shot up from 5 percent in 1997 to 18 percent in 2001. All these huge increases reflect the changes in oil prices as well as rising fiscal deficit. Appendix Box 1 describes the institutional process of oil revenue operations.

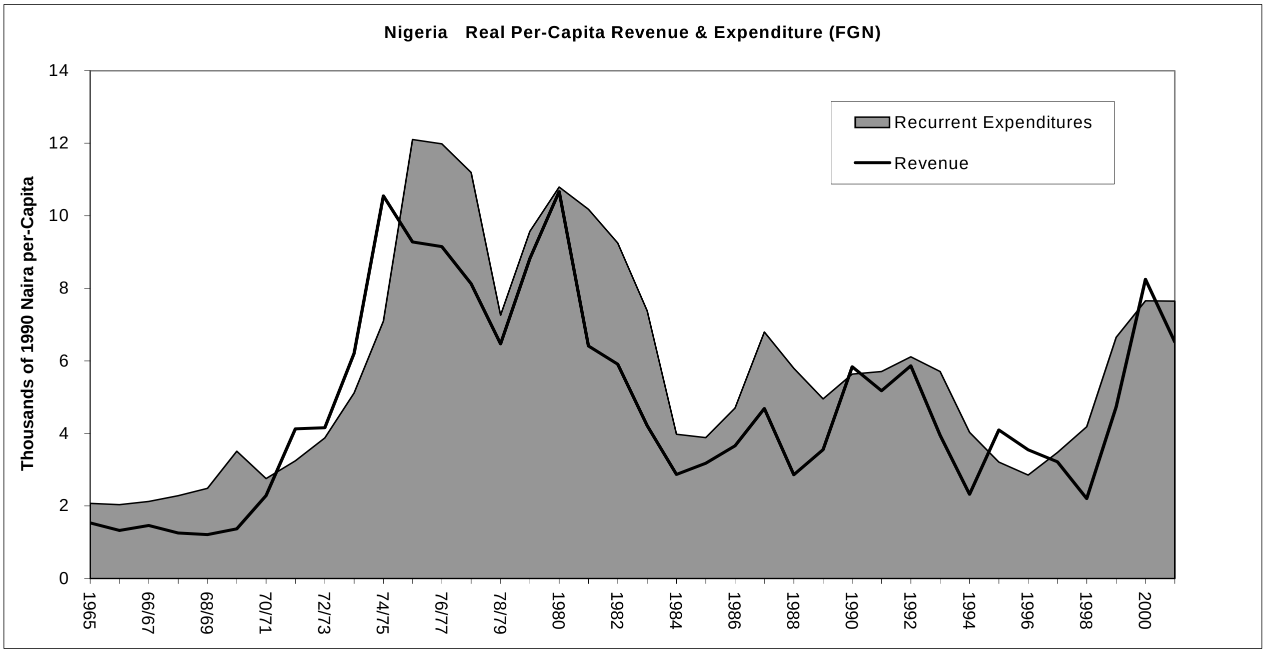
Table 2.19: Consolidated Government Finances (In percent of GDP)

	1997	1998	1999	2000	2001
Total Revenue	20		29.3	45	46.9
Of which: Petroleum revenue	11.1		21.4	37	36.1
Total Expenditure and net lending	19.1		36.4	38.6	50.2
Recurrent expenditure	6.1		14.4	15.2	15.4
Of which: foreign interest due	1.2		5.4	4.1	3.6
domestic interest due	1.1		2.5	2.4	2.5
Capital expenditure	7.7		10.7	11.7	16.8
State and local government (Incl. Special Funds)	5.3		8.4	11.5	17.8
Overall balance (Commitment basis)	1		-7.1	6.4	-3.3
Balancing items/Drawdown on balances	0		0	0	0
overall balance (Cash basis)	1		-7.1	6.4	-3.3
Foreign financing	1		0.9	0.4	-1.3
Domestic financing	-2		6.2	-7.2	2.8
Of which: bank financing	-2.4		7.1	-5.3	2.9
Memorandum items					
Primary balance	3.3		0.8	13	2.8
Nominal GDP (in millions of Naira)	2939651		3371335	4271221	4746666
Price of Nigerian oil (in US dollars per barrel)	19.27		17.98	28.24	24.28

Sources: Federal Ministry of Finance and IMF staff estimates

A major issue in Government finances in Nigeria pertains to the volatility of both the revenue and expenditure (see Figure below). Addison 2002 elaborates on the nature and costs of revenue and expenditure volatility. The long-run average growth in real per capita revenues in Nigeria was 10 percent per annum with a standard deviation of 41 percent between 1965 and 2001. Government officials have difficulty predicting the direction and duration of revenue shocks, and this uncertainty feeds into the budgetary planning and implementation. Borrowing, especially from external sources is difficult, and ironically is often made available when it is least needed. For example, credit lines were generously open to Nigeria during the oil boom era and got tightened during the downturns. The consequence is that relative to revenues, expenditures tend to be pro-cyclical: volatility in revenues also translates to volatility in expenditures. According to Addison, the elasticity of total expenditure to revenues (for the federal government) is 0.77.

Figure 2.8: Real Revenue and Expenditure Per-Capita, 1968—2001.



Source: Addison 2002.

Aside from volatility of revenue and expenditure, there are issues of the composition of government expenditure and the ever rising pressure to spend (see appendix tables 14, 15, and 16 for description of Federal Government's total expenditure by functional classification, and the breakdown into recurrent and capital expenditure categories. One feature of the tables that stand out is the increasingly dominant share of transfers--- debt service payments--- in both the total and recurrent expenditures. The social and community services—education, health, housing and other services--- get the smallest allocation. Nigeria is a Federation with three tiers of government, and there is no reliable data on consolidated government spending on the social sector to accurately evaluate the extent to which Nigeria meets the recommendations by UNESCO and WHO for the sector.

General Gowon, the military head of state until the mid 1970s was quoted as describing Nigeria's problem during the oil boom as that of *how to spend its money*. And literally, that problem persists. That problem shows up in many facets--- size and quality of spending, composition of spending, unsustainable and volatile spending, waste and inefficiency, etc. There is overwhelming emphasis on spending, and little attention on revenue generation and diversification. These problems persist even under the current civilian administration. A challenge of fiscal policy since the new civilian administration assumed office in 1999 has been the pressure to deliver 'democracy dividend' through massive increases in public spending which will be difficult to reverse if oil prices collapse vis-à-vis the likely medium term unsustainability of the fiscal stance. There is also the weak absorptive capacity of the economy and poor institutional capacity to effectively manage public resources. The capacity to effectively manage fiscal policy for stabilization and growth is made all the more difficult by the constitutional provision which requires that all federally collected revenues (including oil revenues) except the income taxes of personnel of the armed forces and foreign affairs, be paid into the Federation Account and automatically shared among the federal, 36 states plus the federal capital territory (Abuja) and about 774 local governments according to a formula prescribed by the National Assembly. This automatic right to revenues and the constitutional helplessness of the federal government to constrain spending by other levels of government make it difficult for the central government to manage oil 'windfalls' or devise a fiscal rule that ensures intertemporal consumption smoothing through the sterilization of windfalls[14]. It also impacts on the ability of the federal government to ensure macroeconomic stability. On its part, the federal government is under pressure to invest heavily to address the massive infrastructure and institutional decay, especially electricity, roads, and basic utilities. But this still does not diminish the concerns about the institutional capacity to design programmes and efficiently utilize public resources and minimize corruption and waste.

Both revenues and spending have been on the increase since 1999. Although a supplementary budget was passed in 1999 after the civilian government was sworn-in, the first substantive budget of the current government was for 2000. This budget was passed about mid year in 2000 after months of bitter political battle between the National Assembly and the executive in part over the responsibility for the formulation, implementation, and monitoring of the federal budget. Pressures to address endemic poverty led the government to once more experiment with the old and failed public sector driven employment and income creation through massive spending. Government succumbed to pressures to increase public sector wages, while the strong protests by labour unions stalled the government's attempt to remove the petroleum subsidy and deregulate the downstream petroleum sectors. In May 2000, the government more than doubled the public service wages partly to compensate for the substantial erosion of real wages and probably also to reduce petty corruption. Government revenues increased massively in 2000 reflecting substantial rise in the price of crude oil over the budget benchmark of $20.00 per barrel. A breakdown of the gross revenues indicated that oil receipts rose by 119.7 percent accounting for 84 percent of the total revenue. On the expenditure side, the consolidated government spending in 2000 increased to 39 percent of GDP, up from 19 percent in 1997. Aggregate expenditure of the federal government increased by 25.3 percent over the level in 1999. The resulting deficit of 2.9 percent of GDP was financed wholly from domestic resources, through the issue of Treasury Bills (and total domestic debt stood at about 24 percent of GDP in 2000). A breakdown of the spending showed that current expenditures took the lion share of 66 percent, due primarily to the upward review of civil service emoluments, while capital spending accounted for 34 percent.

The consequences of the 2000 budget will have some long lasting effects, especially since most of the recurrent expenditures--- such as the wage bill—will be difficult to reverse when oil prices fall. Given this ratchet effect of current spending, the burden of adjustment would either fall on capital spending or the government would resort to increased borrowing, or attempt to raise revenues through the removal of subsidies on petroleum products, increased tariffs, and income taxes. Some of these measures would be politically difficult to ram through (especially the removal of subsidy on petroleum products), and the curtailment of capital spending given the decayed infrastructure and impending elections will pose major challenges. Resort to borrowing (especially from the domestic market) has consequences for the already huge domestic debt stock, inflation and appreciation of the real exchange rate, and the already very high domestic interest rates. There are no easy choices.

[14] In the annual federal budget, the federal government assumes a benchmark oil price for revenue estimates. If the oil price in the year exceeds the estimated, the 'excess' could be regarded as a 'windfall' and saved for use in the case of future fall in prices. In 2000, the oil windfall amounted to US$4 billion or 10 percent of GDP. About 50 percent of this accrued to states and local governments which was distributed equally in the last quarter of 2000 and the first quarter of 2001. Currently, a serious political debate is going on to evolve a solution to the problem.

The 2001 budget further increased the consolidated government spending to 50.2 percent of GDP. Compared to 1999, the 2001 budget represented an increase in total spending (recurrent and capital) of more than 70 percent. The increase in capital spending was a whopping 250 percent from 1999. The goal of the 2001 budget was to consolidate the thrust of the 2000 policies in laying a solid foundation for a private sector led market-driven and growth enhancing economy in which unemployment and poverty will be reduced, and inflation maintained at single digit. Specifically, the budget aimed to achieve the following:

- to provide the enabling legal, fiscal and monetary environment for the private sector to become effective engine of growth;
- to upgrade the performance of major infrastructure facilities;
- to improve the operational capabilities of the law enforcement agencies at crime prevention and reduction;
- to continue with the policy of probity, transparency and accountability in order to reduce the cost of doing business in Nigeria;
- to make bold steps to fight illiteracy through the implementation of the Universal Basic Education, UBE, Scheme;
- to intensify the pursuit of rural poverty alleviation and food security, through fiscal incentives to lenders and borrowers for agricultural production, and
- to improve the health of the population through the rapid upgrading of our preventive and curative healthcare delivery system.

As stated earlier, the government has been under pressure to rebuild the comatose infrastructure and lay the foundation for private sector-led growth. The structure of capital spending 1999- 2002 (presented in table 2.20 below) seems to reflect this concern.

Table 2.20: Sectoral Allocation of Capital Budget (Billions of Naira and Percentage of total Capital Spending)

	1999		2000		2001		2002	
	N' Bn:	% Share	N' Bn:	% Share	N' Bn:	% Share	N' Bn:	% Share
Power and Steel	7.1	(5.2)	48.3	(15.5)	69.8	(14.4)	38.5	(13.0)
Works and Housing	14.7	(10.8)	35.2	(11.3)	53.0	(10.9)	32.9	(11.0)
Water Resources	6.9	(5.1)	13.5	(4.3)	49.8	(10.3)	30.2	(10.0)
Education	6.8	(5.0)	23.3	(7.5)	24.8	(5.1)	17.7	(6.0)
Health	5.1	(3.8)	5.9	(1.9)	25.1	(5.1)	14.9	(5.0)
Transport	1.5	(2.2)	2.2	(0.7)	23.0	(4.7)	11.4	(4.0)
Agriculture	6.9	(5.1)	5.8	(1.9)	10.6	(2.2)	3.87	(1.0)
Defence	3.2	(2.3)	7.0	(2.2)	20.5	(4.1)	NA	
Federal Capital Territory	15.8	(11.6)	20.3	(6.5)	24.8	(5.1)	22.0	(7.0)
Sports and social development							15.0	(5.0)
Science and Tech.							3.7	(1.0)

Sources: 1) 1999- 2001: Federal Government Approved Budgets
2) 2002 figures from the proposed 2002 budget submitted to the National Assembly in November 2001.

As a proportion of total capital spending, there is overwhelming emphasis on power and steel (reflecting the national concern to improve electricity supply), works and housing (to rebuild the decayed infrastructure especially roads), and water resources in a country where less than 40 percent of the population has access to safe and portable water supply.

Evidently, the budget does not reflect a direct priority to the social sector and poverty reduction, at least as measured by capital spending on the health and education sectors. According to the World Bank evaluation of the 2001 capital budget, "key items that would benefit the poorest groups, such as universal basic education, the national programme on immunization, maintenance and rehabilitation of roads, appear underfunded, whereas considerable resources are proposed for expenditures such as an Olympic-size stadium complex, a large water supply scheme for the Federal Capital Territory, poorly justified new road construction and substantial increases in military spending". The federal government counters that all its spending benefit the poor--- whether it is getting the comatose National Electric Power Authority (NEPA) to work, or increased security of lives and property, etc.

Historically, the Nigerian government has lagged other countries' spending (including Sub-Saharan Africa's average) on health and education. For the period 1994-98, Nigerian government spending on health averaged about 2.5 percent of GDP per annum compared to an average of 3.9 percent for Ghana, 6.9 percent for South Africa, and 4.0 percent for Sub-Saharan Africa. Education is even much worse. In the periods 1985-87 and 1995-97, federal government spending on education as a percentage of GDP fell from 1.7 percent to 0.7 percent whereas the sector received increased spending in most other countries including Ghana, Cote d'Ivoire, and South Africa. An important caveat must be underscored in an attempt to properly interpret government total spending on education and health. Nigeria has a federal structure, with education and health in the concurrent legislative list, and thus the three tiers of government have responsibility for providing them. Data on the spending by the other two levels of government on these sectors are poor or absent. Thus, there is possibility of gross under-estimation when one compares only the Federal Government's spending with the total government spending in countries that run essentially 'unitary' systems of government. Aggregate or consolidated government spending on health and education (when the 36 states and 774 local governments are included) could more likely exceed the size of spending (as percent of GDP) in many of the comparator countries or even the sub-Saharan Africa's average.

Two institutional reforms have helped to strengthen the budget process. The first is an institutional reform which led simultaneously to the setting up of a new Budget office in the Ministry of Finance (with a Permanent Secretary to head it) and the Budget Monitoring and Price Intelligence Unit (BMPI) in the Presidency. The value-for-money audits of capital projects and the strict adherence to the new "Due Process" compliance instrument significantly reined in capital spending. The Due process seeks to significantly improve the quality of public sector capital spending by ensuring rigorous compliance with laid down budget preparation guidelines. This has ensured that unproductive spending is curtailed by subjecting project selection to the criteria of accuracy of costing, utility, capacity, cost-benefit analysis, prioritization and availability of requisite resources. The second aspect of the Due process certification enhances the contractual process. To ensure transparency and openness in governance, this would require open and competitive bidding system for all procurements and contracting . To contain waste, inefficiency and corruption, the other aspect of the Due process ensures that payment for contracts are made on value-for-money basis. This requires that only certified performance, as reflecting the stage of completion commensurate to the previous fund releases, will receive further funding. All these processes began in 2001 and have been strengthened in the fiscal year 2002.

The second measure implemented since mid 2001 is the 100 percent import inspection for customs clearance. This was designed to check smuggling, evasion of import duties, and dumping of goods in Nigeria. With 100 percent inspection of imports, government has been able to significantly increase revenues collected from import duties--- thereby reducing what could have emerged as a significant budget deficit. In fact, revenues increased by 47 percent above the target set for the customs by the Government whereas in previous years the customs department had either failed to meet the target or exceeded it by about one percent. The inspection also temporarily halted the depreciation of the Naira at the foreign exchange market due to the curtailing of imports and also boosting domestic production of import substitutes and balance of payments.

In order to address the problems of 'ghost workers' and curtail the wage bill, the Federal government also embarked upon a pay parade verification exercise in 2001. The exercise put the verified personnel costs of actual staff on the federal pay roll at N225.8 billion (about $2 billion or 5% of GDP per annum).

The 2002 budget was presented to the National Assembly on November 7, 2001, and was not enacted into law by the National Assembly until July 2002—reflecting again the continuing political bickering between the Executive and legislative arms of the National Assembly. The budget was predicated on estimated oil revenue assuming that the price of oil would, on the average, remain $18 per barrel in 2002. The 2003 budget was predicated on US$20 per barrel. Evidently the government has begun to face the reality of a potential fall in oil prices and the likely unsustainability of the existing fiscal spending. President Obasanjo underscored this when he observed in his 2001 budget speech that "the fortunes of our yet monolithic economy are directly linked to the state of global economies, thus foisting upon us the same kind of challenges that periods of recession bring on other countries". Thus, the 2002 and 2003 budgets were presented against a background of declining oil revenues and unpredictable global economy.

As stated earlier, the annual budget is the key instrument of economic management. In every budget, the Federal Government usually articulates all the objectives it wishes to pursue in the area of social and economic management in the year. A sample of such is provided by the 2002 budget where the government aimed to address a multiplicity of objectives including:

- continuation of the privatization of government investment and public utilities
  ate of at least 5 percent;
- minimizing budget deficit and eliminating extra-budgetary expenditure;
- continued liberalization of foreign exchange market by sustaining Inter-Bank Foreign Exchange Market (IFEM);
- targeting a moderate inflation rate
- pursuing low interest rate regime
- reducing the level of unemployment through increased capacity utilization and encouragement of self-employment initiatives
- increased funding for the police, judiciary and other law enforcement agencies so as to step up the fight against crimes and criminals;

- enhancing performance of infrastructure facilities through proper rehabilitation and maintenance of existing infrastructure, and the provision of additional facilities, particularly water and energy;
- strengthening the war against corruption in both private and public sectors;
- enhance funding for education at all levels with particular emphasis on the Universal Basic Education;
- improving healthcare delivery, with emphasis on preventive medicare;
- increasing food production and provision of post harvest storage facilities including maintenance of a system of buyer-of –last resort and guaranteed minimum price;
- diversifying the revenue base of the economy through appropriate fiscal incentives to investment in agro-allied industries, gas, solid minerals, petro-chemical industries and tourism;
- encouraging foreign direct investment through increased liberalization;
- pursuing debt service and debt-stock reduction, through dialogue with the Bretton Woods Institutions and the Paris Club of Creditors; and
- elaborating on the new information technology policy, through investment in ICT Biotechnology.

Waste and inefficiency are two other keywords that also characterize Nigeria's budget process and implementation (see Box 2.4). Part of the causes of the waste is due to the volatility of revenue. Nigeria is littered with thousands of abandoned/uncompleted projects. For the federal government, a 1992 Presidential Monitoring Task Force identified 3,907 federal projects which had been started prior to 1992. Of these, only 808 had been completed by 1992, and project managers were able to identify future completion dates for only 1,068 projects—leaving 2,031 or 52 percent with an uncertain future. It is common to find projects that had gulped several hundreds of millions of dollars lying waste for more than a decade. Many of these projects were started when the revenue profile was robust but improper planning did not anticipate a probable downturn in the price of oil or revenue. There is also the problem of simple misplacement of priority (see Box 2.4 below).

The World Bank Joint Interim Strategy Paper on Nigeria (2001, p.10) sums up the current state of effectiveness of public sector intermediation of oil resources in Nigeria as follows:

- While the new administration is committed to eliminating public corruption, this has become deeply ingrained and remains a serious problem at federal, state and local levels of government;
- Public expenditures are not well focused on anti-poverty priorities, reflecting outdated development paradigms, the nascent state of the government's poverty strategy and, in some cases, a continuation of vested interests.
- Even when the programs are well targeted and planned, implementation capacity at the state and local government level is very limited. Consequently the development impact of public programs has frequently proved disappointing; and
- The distribution of benefits from public expenditures is unequal, biased toward urban areas, with the poorest segments of society receiving a low share of benefits.
- Thus, although roughly one-half of GDP comes to the government in revenues, very little of it contributes to the development goals of the new administration. As a result, oil revenues continue to have limited impact on the non-oil economy, the part of the

economy that generates the incomes for the vast majority of Nigerians and for all of Nigeria's poor.

The next key issue is the constraint posed by the fiscal federalism on the management of revenue-expenditure volatility. Many proposals have been put forward for a medium-term expenditure framework and stabilization funds--- to save and spend in a counter-cyclical manner--- but one factor militating against that is the nature of the fiscal federalism (see Appendix Box 2). The Supreme Court has not made things any easier for the government. With the April, 2002 Landmark ruling on resource control, it was made an illegality for the federal government to appropriate any funds to itself in the name of stabilization or special charges thus making it mandatory for all income accruing to the Federation account to be shared out immediately. However there is a measure of silence on the timing and sequencing of the sharing of the funds accruing to the Federation account. Agents thus take advantage of this silence and insist that the sharing of funds accruing to the Federation account be done immediately. This is still a sore point in the making of the Federation and the mode of operation of the revenue of government.

Box 2.4. Inefficient Public Investment

Over the past two decades, Nigeria has undertaken a large public investment program, which focused on ill-defined infrastructure projects in the 1970's, industrial plants (refineries, electric power, steel, aluminum, and petrochemicals) and the new federal capital territory in the 1980's. A number of these projects were funded outside the budget process and most of them lacked a rigorous analysis of economic viability, leading to inappropriate choices of technology, location, and size. Overcharging by foreign suppliers and a lack of transparency in the accounting of the funds further undermined the integrity of the process. During the period 1973-90, the Government spent an estimated US$115 billion on public investment projects, representing about two thirds of total investment.

A recent study of Nigeria's public investment program (Ishrat Husain and Rashid Faruqee, eds., *Adjustment in Africa* (World Bank 1994) found that project costs in Nigeria were some 25 percent higher than the norm for sub-Saharan Africa and infrastructure projects were generally more than twice the size needed to meet foreseeable demand. As a result, many public sector investment projects have not been economically viable from the start, with actual capacity utilization rates estimated at about 30 percent against planned rates of 80 percent. The overcharging and over sizing of public investment projects has led to excessive costs in the range of 50 percent of the total investment. Based on these estimates an efficient and effective public investment programme could have yielded the same output results for about US$58 billion, resulting in financial savings of the same order, which if invested at an annual rate of return of 5 percent would have yielded almost US$3 billion in annual revenue for the government, or some 40 percent of total government revenue in 1991.

Specific examples of public investment projects with low or negative rates of return include:

- The Ajaokuta steel complex: By end-1990, the project had already cost over US$3 billion and was expected to need an additional US$2-3 billion to complete. The new complex, when completed, will have an annual production capacity of 2 million tons of steel. The existing Delta steel complex is currently meeting domestic demand while running at only 50 percent capacity. Based on present world market prices, Ajaokuta is not economically viable as its production costs are estimated to be four times the industry average.
- The new federal capital area of Abuja has proved to be a very costly investment. It is that the Government spent some US$10 billion constructing the new capital city over the past decade, and will require an additional US$2-4 billion to complete it.
- The aluminum smelter plant at Ikot Abasi, with an estimated cost of US$1.4 billion, will cost about 60 percent more than the industry standard.
- Investments in the oil and gas sector by the Nigerian National Petroleum Corporation have been both inefficient and ill planned. The lack of transparency in NNPC's investment portfolio and decision-making process have led to mismanagement and overcharging in many of its projects.

Source: Moser et al, Nigeria Experience with Structural Adjustment (1997) IMF page 37

2.3.3: Other Institutional and Structural Policy Reforms:

Since the inception of the Obasanjo administration in 1999, progress has been made on a number of fronts to reform the institutions of governance and ensure a structural transformation of the economy. Some of the key reforms include the following:

- Establishment of an anti-corruption commission

- Approval of significant reforms in public procurement practices, substantially in line with the Country Procurement Assessment Review. Consequently, the Budget Monitoring and Price Intelligence (BMPI) unit at the Presidency has been established to ensure Due Process Compliance in the evaluation, contracting and monitoring of capital projects.

- Approval of the recommendations in the Country Financial Accountability Assessment in January 2001 as a basis for reforms in financial management.

- The Government is carrying out value-for-money audits intended to review the effectiveness of its recent capital expenditures;

- Setting up of the Debt Management Office (DMO) with a mandate to consolidate, reconcile and manage Nigeria's external and domestic debt

- Setting up of a separate Budget Office in the Ministry of Finance, with a Permanent Secretary in charge so as to tackle the perennial budgetary problems of government.

- Setting up of the Economic Policy Coordinating Committee under the office of the Vice-President to ensure internal consistency and coordination of government economic policies;

- Setting up and nationally televised open-sitting of the Human Rights Violations and Reconciliation panel, akin to the South African Truth and Reconciliation Commission.

- Sale of cellular (GSM) phone licenses to three firms at $750 million, and the three companies are in operation—thereby helping to ease the problems of communication in the country.

- Privatized the Nigerian Telecommunications Ltd (NITEL), and moving to privatize the epileptic National Electric Power Authority (NEPA).

- Restructuring and energizing NEPA, and targets to significantly improve electricity supply by December 2001 through the generation of 4,000 MW of electricity (about double the generation capacity when the new government took over).

- Implementing some major reforms of the university system including licensing of new private universities and is reviewing plans for granting increasing autonomy for individual higher institutions;

- Adopted a new National Water Supply and Sanitation Policy that makes privatization or private sector participation in water supply a major aspect of the policy;

- Streamlined its poverty alleviation institutions, closing nine agencies and merging another six. It has also set up a panel to take stock of performance under past poverty programs and suggest ways to improve design and implementation of future programmes.

- Instituted 100 percent inspection of imports, and modernizing the ports and customs clearance procedures.

- Produced the Obasanjo's Economic Direction, 1999- 2003, and aggressively re-drafting several sectoral policies e.g. new Trade Policy; new industrial policy; competition policy and anti-trust reform; and policies for power, telecommunications, etc.

- Embarking on the review of the new tariff schedule to substantially reduce the existing structure of protection, and eventually harmonize with other West African states to produce an ECOWAS common external tariff.

2.4: State Government and Fiscal Decentralization

An important feature of the Nigerian economy is its unique federal structure. It is unique in the sense that the component states that make up the Federation are the result of successive government creations—from three regions at independence in 1960 to 36 states and a Federal Capital Territory—Abuja, as well as 774 local governments.

So far in this Report, we have focused on the management of the economy by the Federal Government—that is, the central government. But the nature of the Federation is such that circumscribes the capacity of the federal government to effectively manage the economy. There is a major issue about fiscal decentralization which ensures that the states and local governments share of the consolidated government spending is about 45 percent—but the central government has no statutory powers to control the sub-national governments for the purposes of macro stabilization. These lower tiers of government are not only important because of the size of spending, but also because (constitutionally) they have direct responsibilities for several of the aspects that impact on poverty directly--- primary and secondary education, health care services, rural roads and infrastructure, community services, etc. An assessment of the economy cannot therefore be complete without a brief overview of the challenges of the fiscal federalism. There are also questions about efficiency and waste, sustainability of fiscal positions, institutional capacity to manage at these levels, etc.

*2.4.1: Responsibilities of different tiers of government***:**

The constitution of the Federal Republic of Nigeria stipulates the roles expected of the various levels of government- the local and state governments. Each level of government has formal responsibilities. Nigerian Federation is a continuing creation--- with many more states and local governments created over the years in response to struggles and calls for devolution of power to lower levels of government. There are currently 774 local governments (whose structure, functions, and finance are, following the 1999 constitution, greatly determined by the state government).

Currently, there are 36 states including the federal capital territory. The table below summarizes the differing role expectations on the levels of government.

Table 2.21: Responsibilities of Different Tiers Of Government In Nigeria.

Exclusively Federal Government	Concurrent Federal and State	Concurrent State and Local	Local Government
✓ Defense ✓ External Affairs ✓ Law and Order ✓ Post and Communications ✓ Interstate Transportation ✓ Aviation, sea and rail transport ✓ Currency ✓ Oil and Gas	✓ Tertiary education ✓ Justice ✓ Electric power ✓ Banking and Finance ✓ Agriculture and Industry	✓ Secondary education ✓ Health care delivery ✓ Water supply ✓ State roads ✓ Fire service ✓ Land use ✓ Health care ✓ Primary education	✓ Markets ✓ Cemeteries ✓ Waste disposal ✓ Local streets-construction and maintenance ✓ Motor parks and open spaces ✓ Establishment of destitute homes ✓ Slaughter houses ✓ Public conveniences

Source: Draft: Nigeria States Finances Study, 2002:28

The federal government is responsible for maintaining defense, foreign affairs, law and public order, provision of public utilities like railways, post and communications, roads of national interest (Trunk A roads), and air and sea travels infrastructures. In the provision of health and educational services, the federal and state governments complement one another in the role expectations. The functions assigned to the local government include: planning for and administering a number of national services and facilities; coordinating through direct action or regulation a variety of public and private development activities within their jurisdictions; Providing small-scale infrastructure, irrigation and drainage facilities; budgeting and allocating local and national revenues for municipal operating expenses and small-scale capital investments; arbitrating local conflicts, processing claims, channeling requests and demands to higher levels of government; providing a communications channel between national and state governments and local communities and private organizations; providing basic social services such as education[15] and health and maintenance of roads and public utilities within the jurisdictions. They are also charged with the responsibility to maintain cemeteries, burial grounds, and homes for the destitute or infirmary. The existence of externalities dictates that certain functions are to be performed by more than one level of government simultaneously and such roles belong in the concurrent list. Evidence has shown that in practice such concurrent list leads to wasteful duplication and unbridled inter-unit competition.

[15] The responsibility of funding primary school education including the payment of salaries of primary school teachers was allocated to the local government. The burden was great for the local government as the proportion of revenue devoted to salaries became too big for the carrying capacity of local governments resulting in huge arrears of unpaid salaries, which in turn resulted in frequent disruption of school calendar as teachers embark on strikes to press for their pay. In a bid to ameliorate and salvage the unfortunate implications of this state of affairs on the standard of education, the federal government instituted the practice of deducting payment of primary school salaries at source from local governments' share of the Federation account. The phenomenon known as zero-allocation became a common experience of local government administrators, as some LGA's receive practically nothing to meet their other expenditures.

2.4.2: The politics and economics of revenue allocation in Nigeria

Revenue sharing arrangements are almost always a matter of intense debate, politics and controversy owing to multi-ethnic composition of Nigeria. As a result, intergovernmental relations in Nigeria can become politically contentious, especially in the light of the current mistrust among different regions and levels of government (and between the executive and legislative arms of the federal government). Many legal powers for raising revenue and providing services are vested in central government agencies, but certain functions are the responsibility of decentralized jurisdictions serving the dual purpose of administrative subdivisions of the federal government and semi-autonomous sub-national governments. Government revenues are aggregated in the Federation Accounts and shared periodically among the constituent tiers of government. The federal government on behalf of the states and local governments of the Federation collects the most important taxes and revenues. These include companies income, petroleum profits and value added taxes, import and excise duties, education tax as well as proceeds of crude oil sales, mining rents and royalties, upstream gas sales, liquefied natural gas (LNG) sales, domestic crude oil sales and tax on petroleum products, pipeline fees and penalties for gas flaring. All these revenues (with the exception of education tax[16]) are paid, by constitutional requirement, into the Federation Account for distribution among the three tiers of government. The revenue sources of the different tiers are summarized in box 2.5 below.

Box 2.5: Sources of Revenue: Federal Government of Nigeria

Personal Income Tax
Petroleum Profit Tax (PPT)
Value Added Tax
Education Tax
Capital Gains Tax-Abuja residents
Stamp duties involving a corporate body
Personal Income Tax in respect of: ✓ The armed forces ✓ The Police ✓ Residents of FCT, Abuja ✓ External Affairs personnel ✓ Non-residents
Import Duties
Excise Duties
Other oil related revenues ✓ Crude oil sales ✓ Mining rents and royalties ✓ Upstream gas sales ✓ NLNG gas sales ✓ Domestic crude sales ✓ Tax on domestic sale of petroleum products ✓ Penalty for gas flaring ✓ Miscellaneous oil revenues (pipeline fees).

Source: World Bank, Nigerian States Finances Study, 2002

[16] The Education Tax is paid into an Education Tax Fund, managed by an independent trust, and distributed among public educational institutions at all levels of primary, post primary and tertiary, through out the country.

According to the constitution, the States have residual tax powers and can enlarge their tax bases, although this capacity is redundant owing to weak revenue administration capacities. The most important of this is the personal income tax [comprising of pay-as-you-earn (PAYE), direct assessment and withholding tax (individuals only)]. Persons in formal paid employment are subjected to the PAYE system, and self assessment for others; capital gains tax on individuals, stamp duties on instruments registered by individuals, registration and renewal of business premises, development levy (on individuals) and naming of streets in state capitals. Conversely, the tax powers of the local government depend largely on the discretion of the relevant state government[17]. Under the current jurisdiction, local governments collect taxes such as property taxes (tenement rates), bicycle licenses and licenses and fees on non-mechanically propelled carts, birth and death registration charges, and radio and television licenses, liquor licenses and fees, outdoor advertising fees, pet license, restaurant fees, motor park fees, market, etc. Under the current fiscal arrangement, the laws regulating the capacity of the other tiers of government in tax collection are made at the national level. The current democratic dispensation still maintains this constitutional stipulation since it will require a constitutional amendment to change the framework. This is partly responsible for the weak tax administration and revenue capacity of lower levels of government.

Under the 1999 constitution, the state and local governments are entitled to specific proportions of the Federation Account. Proceeds in this Federation account accrue from oil revenues, the company income tax, and customs and excise duties. Certain ‘first charges’ used to be deducted from oil revenues before they were shared with sub-national governments. These deductions were for external debt service, cash calls of the NNPC to alleviate production costs, and expenditure of the National Judiciary Council. However, after the Supreme Court judgment of April 2002 the federal government has sought to share the external debt service burden with states based on their share in the external debt (estimated at 24% of the total). For states, the Federation account accounted for over 46% and 70% of total revenue in 1998 and 2001. Other sources of revenue are: internal revenue, tax revenue, non-tax revenue, value-added tax, stabilization fund and general ecology, state allocation, grants and others. For local government, Federation account is responsible for 67% and 77.6% of local government revenue in 1998 and 2001 respectively. The state and local governments depend heavily on statutory allocations from the federal government. In 2000, the states and local governments account for over 36% of the total government budget (equivalent to 15.6% of GDP). In 2001, the total government expenditure was estimated at about N2.4 billion or 52.5% of GDP. Out of this outlay, the states and local government accounted for about 38% of total government spending. In specific figures, states spent about N596.9 billion (12.5% of GDP) in 2001, against revenues of N573.6 billion (13.6% of GDP), resulting in an overall deficit of about 23.3 billion or 0.5% of national GDP (see table 4). In real terms, the finances of national governments have increased significantly in the last three years, from N69 billion in 1997 to about N274 billion in 2001. The share of states in consolidated government revenues also increased to 42.6% in 2001. The aggregate receipts of states from federally collected revenues between 1999 and 2001 increased from N131.8 billion to N556 billion. The receipt from the excess crude oil windfalls by the State’s increased from 1.8% to over 21% in 2001. The oil producing states of Akwa Ibom, Cross River, Delta, Imo, Abia, and Ondo states experienced stronger revenue increases owing to the increase in natural resource derivation payments from 1% to 13%. Unfortunately, while much of revenue increases came from

[17] A 1998 law enlarged the taxing powers of the local government, but state governments have sufficient powers under the constitution to over ride any local council law.

federally collected funds, the capacity of the states to raise internally generated revenue (IGR) did not improve. In 2001, states raised only 10% of total revenues from their own sources; the remaining 90% came from federally collected revenues, compared to 28% and 72% respectively in 1997. One important fall out from state's growing share of consolidated government revenues is their increased vulnerability to oil price shocks since this growing revenue share is driven primarily by expanding share in Federation oil revenues.

The World Bank's Nigerian States Finances study (2002), observed that fiscal performance of the state and local governments are not regularly monitored and recorded. "For several states, compilation of final accounts for the period since the mid-1990 is only now being carried out. In some states, available data on actual fiscal outcomes covers only part of the fiscal year. Assessment of long term trends and their implications is thus not possible. This points to important weaknesses in public expenditure management systems at these levels that will constrain their ability to effectively manage the considerable resources now at their disposal" (World Bank, 2002: 34). It was then postulated that the necessary policy framework to ameliorate the current fiscal and macroeconomic difficulties must be centered on reforms to improve fiscal discipline at all three tiers of government, including instituting a framework for policy coordination between the three tiers. This could help Nigerian states get into a path of fiscal discipline and sustainable public finances. This is critical if Nigeria's move towards greater fiscal decentralization is to deliver on the objectives of allocative efficiency as well as macroeconomic stability.

One issue of public policy importance is the contest on the appropriate revenue formula[18] to guarantee equity and authentic national transformation. Until recently (see table 2.22 for a summary of the revenue allocation formula in Nigeria since 1980), the formula for sharing the Federation account has been that of giving the federal government 48.55%, states 24%, local government 20%, special funds 7.5%.

Table 2.22: Statutory Allocation Formulas Percentage (Federation Account)

	1980	**1982**	**1987**	**1990**	**1993**	**1995**	**1998**
1. Federal Government	55.0	55.0	55.0	55.0	48.5	48.5	48.5
2. State Government	34.5	34.5	32.5	30.0	24.0	24.0	24.0
3. Local Government	8.0	10.0	10.0	15.0	20.0	20.0	20.0
4. Special Funds	2.5	0.5	2.5	5.0	7.5	7.5	7.5
i. Federal Capital Territory	2.5	-	-	1.0	1.0	1.0	1.0
ii. Derivation	-	-	-	1.0	1.0	1.0	1.0
iii. Development of Oil Producing Areas	-	-	1.5	1.5	3.0	3.0	3.0
iv. General Ecology	-	-	1.0	1.0	2.0	2.0	2.0
v. Statutory Stabilization	-	0.5		0.5	0.5	0.5	0.5

It is only what is paid into Federation account that gets shared, others go to the federal government. The authority to disburse the 7.5% special funds still resides with the federal government, leaving it with 56% of the Federation account to disburse. The first area of concern is with the vertical and horizontal problems emanating from the existing formula. In the vertical revenue formula, there is

[18] For a summary development of revenue allocation principles in Nigeria, see Agiobenebo, 1999:45-47.

demonstrable challenge on the transparency with which the 7.5% special funds is being shared by the federal government. Allocation are made from it to the Federal capital territory (1%), development of mineral producing states (3% of revenue from mineral resources, not of Federation account revenues), general ecological funds (2%), derivation (1% of revenue from mineral resources), and stabilization funds (0.5%). Some state governments consider the special funds of 7.5% an unconstitutional way of increasing allocation to the federal government. They insist that special projects are not a government and the constitution requires funds to be shared only by governments. The Supreme Court ruling of April 2002 upheld this argument.

Fig. 2.9.1: Federation Account Allocation Formula

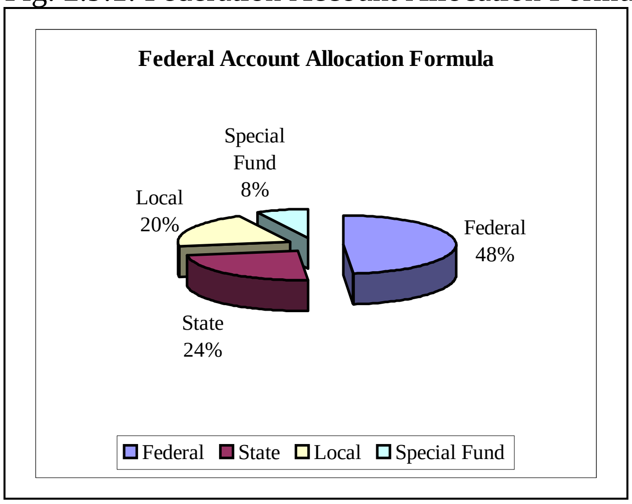
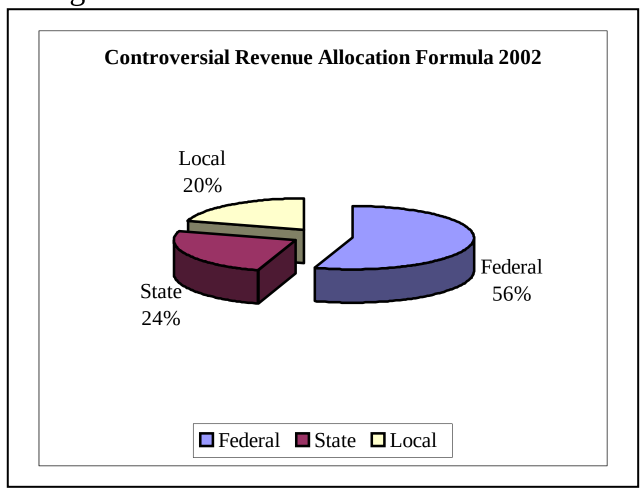


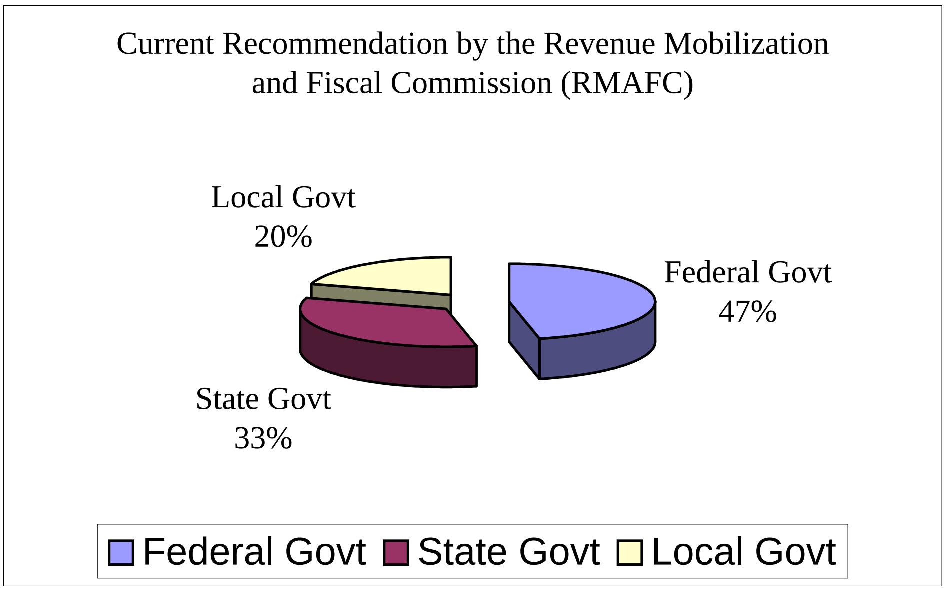
Fig. 2.9.2: Controversial Allocation Formula



Another controversy with the vertical revenue formula was the practice of debiting certain first line charges; hence not all revenue meant for the Federation account was paid into the account. Certain 'first charges' used to be deducted from oil revenues before they were shared with sub-national governments. Under the military regimes, the charges consisted of undefined national priority projects, the Petroleum Trust Fund (PTF), external debt service, and so on. Between 1991 and 1995, 52 percent of revenues due for the Federation account were withheld in this manner (World Bank, NSFS, 2002: 22). Under the current democratic dispensation, these deductions continued and were for 13 percent mineral derivation, external debt service, Joint venture cash calls of the NNPC to alleviate production costs, and expenditure of the National Judiciary Council. However, after the Supreme Court judgment of April 2002 the federal government has sought to share the external debt service burden with states based on their share in the external debt (estimated at 24% of the total). Under this current revenue sharing arrangement, the budgets of state and local government areas are heavily influenced by oil revenue uncertainty. Anyanwu, (1999:132) calculated the decentralization ratio of government expenditure, 1993-1997 and concludes that federal government controls a large amount of resources that is relatively higher than its immediate needs. As a result, fiscal irresponsibility, high level of official corruption and administrative ineptitude and carelessness demonstrably characterize the public administration.

The Revenue Mobilization Allocation and Fiscal Commission (RMAFC) has sponsored a bill to the National Assembly recommending a new revenue allocation formula suggesting that an amount equivalent to 3.5% of the Federation account should be contributed for the Special Funds by the three tiers of government (1.63% of its share by the federal government, 1.15% and 0.71% by the states and local government respectively). There is an adjustment in the federal allocation reducing from 48.55% to 46.63%, while states and local government councils are to receive 33.00% and 20.37% respectively. The commission argued that it arrived at the formula after due consultation with all stakeholders of the Federation account and review of various memoranda it received from the public. Nevertheless, the federal government still controls the highest share in this recommended formula, and opposition continues to mount that the states and local governments that feel the impact of underdevelopment and infrastructural decay in the local communities should be empowered to deal with such issues.

Fig. 2.10: The New Revenue Formula



Very few policy frameworks have focused on whether the revenue allocation arrangements are sufficient to minimize vertical imbalances and to allow each level of governments to perform the responsibilities allocated to it. This is indeed constraining since the stride towards achieving the Millennium Development Goals (MDGs) depends on the extent to which the resources by the governments are used more effectively and equitably.

2.4.3: The problem of horizontal fiscal imbalance

In Nigeria since independence, the search for appropriate mechanisms and formulas for minimizing each set of imbalances has been particularly problematic. This aspect of national management has witnessed several reversals in policy. For instance between 1960 and 1991, sixteen changes were made to the constitution in attempts to resolve these issues. Fiscal federalism results in different tax capacity of subordinate units relative to their expenditure needs. It is required that fiscal instruments for achieving consistent macro policy stabilization at the federal level must ensure equalization of locational advantages arising from interjurisdictional differences. Fiscal decentralization has also been shown to strengthen social capital, and encourage political participation (de Mello, 2001). Fiscal decentralization improves governance and the association between decentralization and governance is stronger when decentralization promotes sub-national revenue mobilization. Fiscal decentralization may lead to allocative inefficiencies, as well as poor accountability and governance, if expenditures and revenue mobilization functions are not clearly assigned across the different levels of government (de Mello and Barenstein, 2001). Unfortunately, the rate at which poverty levels increase in Nigeria challenges the capacity of the present system to deliver the expected dividends. The principles of fiscal federalism are not mutually consistent and the resultant conflicts in Nigeria are today issues of national policy. According to Smoke and Lewis (1996) the reason for this state of affairs is that efforts have tended to focus on the desired outcomes of decentralization as defined by Western normative models of the public sector, rather than on the context-specific processes by which feasible and sustainable outcomes could be defined and implemented. “Many initiatives have been donor driven, far too comprehensive, and inattentive to the complex institutional realities that logically govern the extent to which, and the pace at which, decentralization can occur in a particular country” (Smoke and Lewis, 1996:1281).

Some states or local governments enjoy a high taxable capacity while others are weak and have low ratio of capacity to need. The constitution specifies some of the principles to be taken into consideration in determining the horizontal sharing formula to include population, equality, and internal revenue effort, land mass, terrain population density and derivation. The current formula for horizontal sharing between the states and between local governments is shown in table 2.23.

Table 2.23: Revenue Sharing Formula among the States

Index		**Weight**
Equality of states		0.400
Population		0.300
Land Mass and Terrain		0.100
✓ Land Mass	0.05	
✓ Terrain	0.05	
Social Development Factors		0.100
✓ Primary School Enrolment	0.024	
✓ Direct sec./comm. sch. enrolment	0.008	
✓ Inverse sec./comm. sch. enrolment	0.008	
✓ Hospital beds	0.030	
✓ Water supply spread	0.015	
✓ Proportion of rainfall	0.015	
Revenue effort		0.100
✓ Performance incentive	0.025	
✓ Equality	0.075	
Total	**1.000**	

The problem of horizontal imbalance in 1997 and 2001 among Nigerian states and the federal capital territory is illustrated in table 2.24. While some states (18 states) had more than enough revenues to meet their expenditure responsibilities in 1997 (Military regime), the rest had varying degrees of shortfalls, reaching 35% in Ebonyi, 32% in Jigawa, 30% in Plateau, 27% in Oyo, and 25% in Kaduna. In 2001, all the states except Osun (-7.4%), Zamfara (-4.5%), Nassarawa (-5.9%), Bayelsa (-1.5%), and Imo (-0.88%) had expenditure patterns in excess of their revenue streams. Note is taken that the two years represent two regime policy frameworks and supports the expectation that democratic system of governance are more expensive to run. There is reason to expect differences in policy performance between democratic and military regimes.

One of the implications of horizontal imbalance among the units is the variation in the pattern of adjustment of activities among the states and may serve as an argument for the institution of intergovernmental equalization programmes in order to promote stabilization. Given that these jurisdictions possess differential fiscal capacities to supply public and quasi-public goods, the citizens of poorer states are likely to consume less of such goods to experience certain levels of deprivation. Some studies show large variations in the incidence and depth of poverty across states in Nigeria. Changes in poverty over time have also varied by state and by region and to be growing worse in the northern Nigeria.

McDonald (2002) asserts that horizontal imbalances can only be mitigated through an effective governmental transfer system. Judging from his review of available literature, he discovered that for Nigeria in 1998, horizontal imbalances in per capita terms could result from differences in revenue mobilization capacity. For example, Lagos' state internally generated revenue and revenue from the derivation of VAT in per capita terms amounted to 27 times that of Bauchi state in 1998, and thus concludes that the present transfer system does not do an effective job of redistribution. The states range in size from Lagos with 12 million people to Yobe with 1.7 million, and broad differences in capacity. According to him "the current mechanism does not provide any distinct pattern of redistribution among regions. Differences in transfer per capita are much greater in the three large regions than among eastern, northern and western states" (McDonald, 2002:57).

Table 2.24
Nigerian States and FCT, Abuja: Horizontal Fiscal Imbalance, 1997and 2001

		1997						2001	
	Revenue	Expenditure	Rev.Exp. Ratio (%)	Shortfall		Revenue	Expenditure	Rev. Exp. Ratio (%)	Shortfall
Abia	1690.2	1539	109.83	-9.83		15285.7	16127.5	94.78	5.22
Adamawa	1864.4	1959.6	95.14	4.86		11396.4	11945.6	95.40	4.60
Akwa Ibom	2916.5	3017.9	96.64	3.36		28380.1	28171.6	100.74	-0.74
Anambra	1770.2	2227.1	79.49	20.51		10355.0	10823.2	95.67	4.33
Bayelsa	1827.3	1827.4	99.99	0.01		22932.4	22600.3	101.47	-1.47
Bauchi	2006.9	1611.1	124.57	-24.57		11705.9	13312.1	87.93	12.07
Benue	1997.8	1419.3	140.76	-40.76		12165.6	12581.0	96.70	3.30
Borno	2139.8	2397.2	89.26	10.74		14332.5	15484.7	92.56	7.44
Cross River	2127.5	2131.1	99.83	0.17		12933.1	13954.5	92.68	7.32
Delta	4925.8	3989.6	123.47	-23.47		51950.5	57174.4	90.86	9.14
Ebonyi	1405.7	2160.5	65.06	34.94		11017.6	11965.3	92.08	7.92
Edo	2485.9	2075.1	119.8	-19.8		9786.7	10497.9	93.23	6.77
Ekiti	1825.3	1024.9	178.1	-78.1		7789.4	8106.1	96.09	3.91
Enugu	2437.5	2288	106.53	-6.53		11510.2	11806.2	97.49	2.51
Gombe	1811.9	1312.5	138.05	-38.05		10833.0	11718.7	92.44	7.56
Imo	1903.2	1717.1	110.82	-10.82		17057.3	16907.8	100.88	-0.88
Jigawa	2100.4	3085.4	68.08	31.92		10763.2	11514.2	93.48	6.52
Kaduna	3346.7	4460.9	75.02	24.98		15573.7	15650.1	99.51	0.49
Kano	3544.5	3120.4	113.59	-13.59		25054.0	25329.4	98.91	1.09
Katsina	2191.1	2166.4	101.14	-1.14		12617.2	13615.1	92.67	7.33
Kebbi	1932.6	1814.5	105.51	-5.51		9092.4	9848.5	92.32	7.68
Kogi	1920.7	1619.3	118.6	-18.6		10175.4	10955.1	92.88	7.12
Kwara	1890.2	1474.8	128.17	-28.17		12627.4	13325.7	94.76	5.24
Lagos	12802	10009.2	127.9	-27.9		29872.2	35380.0	84.43	15.57
Nassarawa	1382.1	1348	102.53	-2.53		12005.5	11333.2	105.93	-5.93
Niger	2100.9	1802.5	116.56	-16.56		10873.8	10701.8	101.61	-1.61
Ogun	2625.7	3146.2	83.47	16.53		17173.2	17399.8	98.70	1.30
Ondo	2073.2	1301	159.35	-59.35		21224.1	21215.4	100.04	-0.04
Osun	2283.8	2322.1	98.35	1.65		12326.7	11473.5	107.44	-7.44
Oyo	3043.2	4186.8	72.69	27.31		12660.8	12744.0	99.35	0.65
Plateau	1879.4	2805.3	70	30		12688.4	13116.7	96.73	3.27
Rivers	3705.2	3922.3	94.47	5.53		29197.1	29211.5	99.95	0.05
Sokoto	1941.1	1836.5	105.7	-5.7		10747.9	10971.1	97.97	2.03
Taraba	1765.6	2050.9	86.1	13.9		12382.7	12394.8	99.90	0.10
Yobe	1748.9	1839.9	95.05	4.95		12371.4	12937.5	95.62	4.38
Zamfara	1519	1821.8	83.4	16.6		10584.7	10129.5	104.49	-4.49
FCT,Abuja	4769.8	3816	125	-25		14105.0	14523.6	97.12	2.88
Source: Central Bank of Nigeria, Annual Reports and Statement of Accounts, Various Issues.									

2.4.4: Achieving Sustainable Fiscal Performance In States and Local Governments

Evidence from fiscal performance of the sub national governments show that vertical and horizontal imbalances abound; that although state revenues increased, states' expenditures increased faster than revenues, rising by about 330% in real terms. The World Bank Public Expenditure Review Study (2002) identified that recurrent expenditures constituted on the average about 65% of total expenditures in the states studied. Personnel outlays appropriating over 33% (in Lagos and Bauchi states), to as much as 82% (in Cross River state), leading to the incidence of "zero-allocation" for some lower tiers of government receiving nothing at the end to meet up wage obligations, evidenced by mounting personnel arrears[19] and frequent strike action by state civil servants. This situation is further complicated by the discovery that many states are embarking on big capital projects with little economic or technical justification, while less is actually being translated into actual services and with demonstrable results for the alleviation of poverty and social inequality. This is likely to compromise governance, sustainability and effectiveness of such spending patterns.

Evidence further showed that maintenance of political office holders has become an economic burden, especially during the democratic dispensation of 1999 to 2003. For example, many states increased the number of state parastatals with attendant personnel costs funded from state subventions[20]. A greater percentage of the states recorded on average a deficit position on overall balance. The table 2.25) below shows that 8 of the 12 sample states studied recorded on average an overall deficit position over the period, with levels of over 10% of revenues in three states. In most states, fiscal performance worsened and the issue of increasing state borrowing to cover their shortfalls generally exacerbated the fiscal situation of states. The loans were at very high interest rates, secured on future Federation account transfers with the result that fiscal situation of states are made more precarious. Between 1999 and 2001 deductions from states' statutory allocations to cover such debt obligations increased from about 8% to 15% of their allocations. Where we make allowance for data problems, mounting arrears on personnel obligations, and the fact that state parastatals balances are not captured, it becomes clear that the true picture of states fiscal health is likely to be considerably worse than is captured in these numbers. These data gaps also make it difficult to define correctly and credibly what would be a sustainable fiscal path and adjustment needed to sustained and authentic national development.

[19] In Enugu state, salary payments are regularly two or three months in arrears. In Cross River state, at the end of 2000, salary arrears stood at N341 Million in real terms.

[20] In Lagos state, salaries of staff of these parastatals grew in real terms from N980 million in 1997 to N3.03 billion in 2000 in constant terms and equivalent to about 62% of its recurrent spending.

Table 2.25: Fiscal Balance Performances in Sample States Average for 1997-2001 (% of Revenues)

State	Fiscal Balance	State	Fiscal Balance
Akwa Ibom	18.8	Kano	-0.7
Bauchi	-46.0	Kwara	25.1
Cross River	-56.6	Lagos	-12.8
Delta	-2.2	Ondo	20.6
Ebonyi	-7.6	Oyo	-26.3
Imo	-9.6	Sokoto	3.6

World Bank, Nigerian States Finances Study, 2002

Evidently therefore, the states need urgent fiscal reforms to ensure sustainable fiscal stance and discipline. In addition to reforms at the individual states, broader national measures also need to be taken coordinate and/or harmonize states' and federal government fiscal operations to be consistent with overall national macroeconomic framework and targets (see Box 2.6 below).

Box 2.6: Possible Reform Agenda of States Public Expenditure

- *Reforming State Budget and Financial Management Processes and Institutions:* The key elements of reform include (a). Coordinating the preparation of comprehensive outstanding fiscal accounts; determining size of total debt obligations as well as obligations on personnel costs including pensions; putting in place modern financial information management systems; (b) addressing vulnerability to oil price shocks through a medium term approach to budgeting; (c) sharpening the accountability and responsibility of heads of spending agencies; (d) instituting transparent and competitive procurement processes; and (v) building staff skills in revenue and expenditure forecasting, auditing accounting and monitoring and evaluation.
- *Adopting and implementing clear fiscal objectives:* States and Local governments should consider setting clear fiscal objectives for themselves consistent with broader national fiscal framework and objectives. This could include targets in the following areas: current account and overall fiscal balance; debt to revenue ratio and sustainable debt service to revenue ratios. States can then define fiscal adjustment strategies and clear timeframe to achieve these targets.
- *Expenditure autonomy and control for the states could be enhanced by:* (i) ending the practice of unified civil service pay and pension payments across the three tiers of government; (ii) reforming pensions systems to end complete reliance on current government resources alone and move towards a fully funded system; (iii) ending federally driven initiatives in areas that are the primary responsibility of states in order to ensure that states' control over their spending priorities and budget size is not compromised.
- *Strengthening the framework for borrowing by states:* Federal government should ensure that the rule for disclosure clauses already provided for in the statutes books are enforced; this will improve availability of states financial and fiscal data by requiring states to regularly provide data on their public finances. Furthermore, states should be encouraged to divest out of banks and strengthen Central Bank of Nigeria monitoring of states borrowing from domestic banking system.

Source: World Bank, 2002: States Public Expenditure Review

The World Bank Public Expenditure Review (2002) made the following recommendations:

3: The Microeconomic Perspective: Sectoral Competitiveness Assessment

This section provides further microeconomic perspectives to complement the largely macro analysis presented above. It examines the major sectors of the economy, evaluates the obstacles to firms' competitiveness, and the nature of Government's interventions and their weaknesses

3.1: Sectoral Decomposition of the Nigerian Real Economy

To repeat, the story of the sectoral structure of the Nigerian economy is basically the story of a tripartite structure dominated by oil and gas, the public sector, and the rest of the economy. In terms of sectoral breakdown of output, agriculture remains the dominant sector, followed by the services sector (see table 3.1 below).

Table 3.1: STRUCTURE OF OUTPUT 1990-2001 (PERCENT OF GDP)

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Agriculture	39	38.6	38.3	37.9	38.2	38.7	39	39.4	40.1	40.6	40.6	41.1
Crop Production	30.1	30	30.1	30.2	30.6	31	31.1	31.5	32	32.4	32.6	36.7
Livestock	5.7	5.4	5.3	5.2	5.2	5.3	5.2	5.2	5.2	5.2	5.1	5.1
Forestry	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.3
Fishing	1.9	1.9	1.6	1.2	1.1	1.2	1.4	1.5	1.7	1.9	1.8	2.0
Crude Oil	12.9	13.4	13.4	12.8	12.6	12.6	13.1	12.8	11.9	11.1	11.5	10.6
Mining and Quarrying	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Manufacturing	8.1	8.5	7.9	7.4	7.2	6.6	6.5	6.3	5.9	5.9	5.9	6.0
Utilities	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.6
Building and construction	1.9	1.9	1.9	2	2	2	2	2	2.1	2.1	2.1	2.3
Distribution (Wholesale & Retail)	12.7	12.5	12.5	12.6	12.4	12.2	11.9	11.7	11.8	11.7	11.4	11.4
Transport	3.2	3.1	3.2	3.2	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Communication	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Hotels &Restaurant	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.5
Finance & Insurance	8.7	8.7	8.7	8.9	9	9.2	9.2	9.3	9.6	9.6	9.6	9.7
Real Estate	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Housing	2.3	2.3	2.3	2.3	2.4	2.4	2.3	2.4	2.5	2.5	2.5	2.6
Producers of Government services	8.4	8.4	9.1	10.2	10.2	10.1	9.9	9.7	9.6	9.5	9.3	9.2
Comm. Soc. & Personnel Services	0.7	0.7	0.7	0.8	0.9	1	1.1	1.3	1.5	1.7	1.8	1.9
GDP	100	100	100	100	100	100	100	100	100	100	100	100
Memo												
Real Sector	70.1	70.4	70.3	69.9	69.9	70	70.4	70.4	69.8	69.9	71.9	71.7
Services Sector	29.9	29.6	29.7	30.1	30.1	30.0	29.6	29.6	30.2	30.1	28.1	28.2

Source: CBN annual Abstract and Statement of Accounts 2001 & World Bank 2002

The major theme that emerged in the discussion of productivity in section II of this report is the lack of competitiveness of the non-oil economy, especially agriculture and manufacturing. We return to this issue shortly.

3.1.1: Oil and Gas:

The dominance of oil in Government revenue and exports has been elaborated in Section II, and the future prospects are promising. In March 2002, the Presidential Adviser on Petroleum matters confirmed that Nigeria’s crude oil deposits have hit the 30 billion barrels mark following offshore exploration activities. This is equivalent to more than 35 years of mining at the current rate of production (see Appendix table for selected petroleum statistics). Nigeria has not been lucky with the exploitation of gas, despite the fact that its deposit is even larger than oil in value terms. In 2002, it was estimated that the country loses over US$2.5 billion to gas flaring and that the country accounts for over 20% of total gas flaring in the world . Alarmed at this revelation, the federal government ordered oil firms in the country to gear up for a halt to gas flaring by the year 2004. Presently, the second train of the Liquefied Natural Gas project of the country has taken off and indeed increased production from 1.1 million tonnes to 2.67 million tonnes per week. Currently, the oil firms are no longer sure that the deadline of 2004 will be met should the Federal Government fail to come to their aid in raising the funds for implementing the scheme.

In essence, the oil and gas sector remain promising in terms of the total deposits. But they face two major risks: first, they are exhaustible resources; and second, the demand for them in the international market could be precarious in the distant future given the rapid development of technology in other sources of energy. Furthermore, given the little forward and backward linkages between the sector and other sectors--- and particularly their low employment generation capacity, continued dependence on this volatile sector is a risky development strategy.

Even in this sector, Nigeria has failed to exploit its potentials for buoying up the domestic economy. Nigeria is the sixth largest producer of petroleum in the world but has done little to transit from crude exporter by adding value to this major foreign exchange earner through trade in petroleum products and petrochemicals (see Appendix table 18 for selected statistics on the petroleum sector). The sector is yet to provide opportunity toward investing in local exploitation and other processing and subsidiary industries. This has been attributed to infrastructural problems and inefficiency in management, which resulted in lack of investment maintenance. Supply and production equipment in the sector happens to be very low which requires industrial restructuring and very extensive investment for sound recovery if supply disruptions will be enhanced. According to the report by EDF Programming for Nigeria, the frequent supply disruptions and inadequacies of supplies of refineries impose significant additional costs on the economy, particularly for industries and commerce. Currently, Nigeria imports a significant quantity of its domestic fuel consumption—running into billions of dollars. This is an irony for the sixth largest petroleum producer in the world and after three decades since the oil boom, it cannot refine enough oil for domestic consumption[21].

[21] In the mid-1990s, fuel scarcity reached a crisis proportion, and particularly since 1998, fuel importation has become a major business. It has become such a national crisis that someone joked in 1998 that Nigeria has become the country that imports what it has, and exports what it does not have. What it has happens to be oil--- which is now being imported. What Nigeria did not have at the time was Democracy--- which the country was fighting to restore in Sierra Leone at the time.

As in many other sectors of the economy, the sector is beset by a number of problems including: corruption in the management of the oil industry--- as activities of the Nigerian National Petroleum Corporation (NNPC) remain largely opaque and there are perennial allegations of corruption in the corporation; poor and mismanagement of funds; inadequate liberalization of the downstream oil sector; smuggling of refined oil across the Nigerian borders because of distorted pricing; perverse incentive structure; infrastructure bottlenecks; etc.

There are certainly prospects for making even the oil sector more dynamic, and to play a more catalytic role in the transformation of the Nigerian economy. Over the medium to long-term, the program of production diversification away from natural resources into high value-added sectors such as manufacturing is a national emergency.

3.1.2: Manufacturing Firms and Competitiveness[22]

The agricultural and manufacturing sector should hold the key for Nigeria's structural transformation in the medium to long term. The manufacturing sector is particularly key because of its forward and backward integration, as well as huge potentials for employment generation in the context of high rates of urbanization. Furthermore, no country has been able to achieve rapid and broad based growth without a vibrant (especially labour-intensive) manufacturing sector. Since independence, Government policies (at least on paper) have been directed towards the diversification of the economy and the promotion of industrialization.

But so far, the industrial (manufacturing sector) is comatose, largely underdeveloped, and highly uncompetitive. From all indications, Nigeria is at the pre-industrial stage of development, having one of the most underdeveloped industrial structures in Africa (see table 3.2 below). On all counts, Nigeria ranks far below the African average in terms of manufacturing sector development.

Table 3.2: International Comparison of manufacturing Value Added at Constant 1990 Prices in US$

	Year	African Average	Nigeria	Angola	Kenya	Botswana	South Africa	Zimbabwe
Manufacturing Value Added (MVA) per capita in US$								
	1980	76	20	94	32	85	870	171
	1990	83	18	56	37	144	717	183
	1997	78	17	35	36	154	657	145
	1998	80	17	35	36	160	336	140
	Real Average annual growth rates of MVA (Percentage)							
	1970-80	3.5	5.2	-16.4	10.2	21.1	4.7	2.8
	1980-90	4.3	0.7	-1.3	4.9	8.7	-0.1	3.1
	1990-98	2.0	1.9	-2.7	2.5	3.5	1.1	-1.7
	Real Average annual growth rates of per capita MVA (Percentage)							
	1970-80	0.7	2.4	-18.3	6.2	16.9	2.4	-0.2
	1980-90	1.3	-2.2	-4.0	1.3	5.0	-2.2	-0.2
	1990-98	-0.6	-1.0	-5.9	-0.2	0.9	-0.7	-3.4
	Share of Manufacturing in GDP (Percentage)							

22 Analysis in this section draws from the various surveys and analysis of results by The Federal Office of Statistics Firm Survey (1999), the Manufacturers Association of Nigeria (MAN) Survey (1999); The Results of the World Bank's RPED Nigeria Firm Survey (2002) and the United Nations Development Organization (UNIDO) Surveys (2002).

	1980	11.0	5.2	8.5	9.6	5.4	26.1	21.4
	1990	12.7	5.5	5.0	10.1	4.9	22.8	20.6
	1997	12.1	5.2	4.0	10.4	4.6	21.4	16.0
	1998	12.3	5.3	4.0	10.4	4.7	21.0	15.2

Source: Industrial Statistics, http\\www.unido.org

Another way to appreciate the extent of Nigeria's manufacturing underdevelopment is to benchmark it to selected African countries to locate her on the global and regional competitiveness scoreboard. Both table 3.2 above, and table 3.3 below provide this useful information. On the aggregate, Nigeria is the fourth largest economy in the continental Africa in terms of the size of the GDP (i.e. after South Africa, Egypt, and Algeria), but second to South Africa in Sub-Saharan Africa. But in terms of manufacturing sector development, Nigeria ranks worse than even many of the LDCs in the region--- way below the African average.

The entire manufacturing sector has been endowed with negative and slow growth rates, dominance of light assembly type consumer goods manufacturing, low value added production due to high import dependence for inputs, prevalence of unviable state-owned enterprises and accumulation of large inventories of unsold finished products. The issue of import dependence for inputs/local sourcing of raw materials and large accumulation of unsold inventories has been pestering bugs to the sector according to the Manufacturers Association of Nigeria (MAN) reports.

Table 3.3: Comparative Competitiveness Indicators of the Manufacturing Sector

Indicators	**Year**	**Nigeria**	**Ghana**	**Kenya**	**Morocco**	**South Africa**	**Algeria**	**Egypt**
Man. Value added (MVA) in US$	1999	1752	700	1170	5950	24614	4787	17830
Share of Man. in Total Exports (%)	2000	0.2	46.0	37.4	73.4	80.9	40.0	71.0
Technological Structures in Percentage								
High Technology	2000	0.5	1.0	5.5	11.7	6.1	0.6	2.4
Medium Technology	2000	60.3	5.5	9.5	14.8	9.5	2.9	10.9
Low Technology	2000	24.4	12.7	27.6	43.3	16.6	1.3	31.9
Resource Based	2000	14.8	80.8	57.5	30.2	43.4	99.1	94.8
Ranking of World Economies by the Drivers of Industrial Performance								
Skills Index	1998	72	79	81	54	49	45	53
R&D spending per capita by productive. Enterprises	1998	79	76	65	56	29	53	49
Foreign Direct Investment per capita	1998	60	66	82	55	47	84	61
Royalties per capita	1998	80	72	49	36	43	68	34
Infrastructure Index	1998	72	76	74	61	41	56	60
Enterprise Productive	1998	0.00	0.00	0.00	0.12	11.90	0.16	0.28

R&D per capita								
FDI Inflow	1999	1400	115	42	847	1376	6	1500
ICT per 1000	1999	4	8	10	53	125	52	75

Source: UNIDO, Albaladejo, Soederbom and Teal, World Bank, UNESCO Statistical Yearbook 1998.
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Table 3.4: Selected Indicators of Performance In The Nigerian Manufacturing Sector

Indicator	**1980**	**1985**	**1990**	**1992**	**1995**	**2000**	**2001**
Share in GDP (%)	5.4	8.6	8.1	7.9	6.6	5.95	5.96
Share in total imports (%)	60.3	68.2	63.7	62.3	63.8	60.9	80.6
Share in total exports (%)	0.30	0.07	0.67	0.53	0.80	0.2	0.1
Capacity Utilization (%)	75.0	42.7	36.92	35.44	29.3	36.1	39.6
Share of total employment (%)	17.0	18.2	10.0	7.0	6.3	4.4	

Sources: CBN statistical bulletin Dec 1998, CBN Annual Report and statement of Accounts Dec 2001, FOS Annual abstracts of statistics 1999, and Manufacturers Association Half Yearly Economic Review various issues.

From table 3.4 above, the manufacturing sector contributes little to the GDP (6%), contributes almost nothing to exports (0.1 percent in 2001), depends heavily on imported inputs, and with very low capacity utilization. Industry in Nigeria has traditionally been based mostly on small-scale firms with little exception in the textile industry although most of its activities are concentrated around the major urban centers (Federal Office of Statistics 1999). Also, there is large spatial concentration of manufacturing in Nigeria, with about 50 percent concentrated around the Lagos-Ibadan-Abeokuta industrial complex, some in the Kano-Kaduna axis in the North, and the Onitsha-Nnewi-Aba-PortHarcourt axis in the East.

3.1.2.a: Productivity of firms by sub-sectors

The productivity by sub-sector i.e. firm level is poor in Nigeria. The capacity utilization of the manufacturing sector has a positive correlation to firm size—with larger firms having higher capacity utilization. Only few firms export, with export performance strongly related to firm size. In other words large firms export more than the small firms. Judging from the Total factor Productivity across different sectors, the Food Processing sector ranks highest while the Textiles sector is at the lowest ebb (UNIDO, 2002). Generally the productivity of the entire sector has been on the decline since 1990 except in 1991 when almost all the sub-sectors except soft drink, roofing sheet and vehicle assembly experienced a downturn (See table 3.5 below). The only product groups in the entire manufacturing sector that have shown reasonable increases in production over the past decade are soap and detergent and beer and stout. Paints and cement have more or less held their own but shown no growth. Synthetic fabrics and cotton textiles, which experienced a boom from 1990 to 1992, have fallen drastically since then. Consequently, out of about 174 textile firms that were operating before 1999 only 40 are estimated to be in existence today.

Table 3.5: Index of Manufacturing Production By Sectors

Year	Sugar Conf.	Soft Drink	Beer Stout	Cotton Textiles	Synthetic Fabrics	Foot Wear	Paints	Cement	Roofing Sheets	Vehicle Assembly	Soap & Det.	Radio & T.V.	Total
1990	93.7	364.4	97.8	118	1501.6	45.8	62.7	88.7	79.6	24.1	153	12.2	162.9
1991	129.1	243.5	100.7	147.5	1921.1	85.9	98	98.7	57.9	17.1	153.9	11.8	178.1
1992	176.7	186.4	117.5	150.2	1970.5	92	99.7	100.5	41.2	18.3	153.9	11.6	182.7
1993	134.4	159.7	97	106.4	1229	88	110.6	104.1	39.3	18.9	164	10.1	145.5
1994	106.5	148.4	95.2	92.1	1066.9	59.8	98.4	95	30.8	17.4	152.6	8.9	144.2
1995	59.4	153.2	103.9	89.6	803.1	59.8	118.1	93.2	37.8	11.7	167.6	6	136.3
1996	58.2	156.8	109	104.1	791.6	42.6	121.3	93.1	29.2	14	203.9	6.8	138.5
1997	56.1	157.1	116.7	106.1	769.2	49.9	114	91.5	28.6	13	206.7	4.5	138.5
1998	56.5	162.1	119.3	94.5	708.4	45.6	112.8	92.3	29.1	14.8	206.7	4.5	133.1
1999	55.7	170.5	125.5	91.8	703.7	45.6	112.3	92	28	15.8	209.7	4	137.7
2000	56	170.9	125.5	92.3	727	45.5	112.9	91.6	28.1	15.6	208.7	3.4	138.2
2001	47.5	194	125.7	93.6	665.6	44.9	114.4	93.5	27.6	15	210.1	3.3	142.2

Source: CBN Statistical Bulletin and CBN Annual Report and Statement of Accounts, 2001

The consequence of the poor performance of the textile industry is the withdrawal of established firms, with an attendant loss of potential investment and valuable marketing networks and contacts in overseas markets.

The various manufacturing surveys in Nigeria by the Federal Office of Statistics, Manufacturers Association of Nigeria (MAN), the World Bank's RPED survey, and the UNIDO survey underscore the hostile environment facing the real sector in general and the manufacturing sector in particular. A key message that emerges from these surveys is the atypically high cost of doing business in Nigeria--- caused mainly by poor and inadequate infrastructure support services, cost and availability of finance, uncertainties of all kinds--- policy and socio-political, cumbersome administrative, institutional and regulatory regime; etc. Infrastructure in terms of power supply (electricity), bad roads, poor communication network, etc has not only contributed to inefficiency of these industries but also sky rocketed the cost of doing business in Nigeria. Survey results show that about 95 percent of firms in Nigeria have private provision of electricity, and the cost of electric plants is often as much as 25 percent of business start-up costs. And private provision of electricity is more than 150 percent more expensive than the public provision. The dearth of infrastructure and public utilities is so acute that it is usual for firms to construct their own access roads, install electric plants, provide water boreholes, provide their own security to guard the business premises and key officials, provide poles and wires to extend public telephone lines to their factory sites, etc. All these add significantly to their cost, and it is little surprising that they are unable to compete internationally or against imported substitutes.

Other constraints include the harassment of firms by state and the Local governments over multiple levies and charges in spite of the clear position. The drive to enhance local sourcing of raw materials has continued to be constrained by inadequate technical facilities to process raw materials of the right technical specifications and quality, including uncertainty of supplies arising from irregular production and supply schedules.

Table 3.6. Summary of firm Survey Results

Indicator	Highest Sector	Least Sector	Value (highest)	Value (lowest)
Labour Productivity/ Capital Intensity	Food	Textiles/Garments	12.8	11.6/11.5
Value Added Per Worker	Food	Wood	$9,439.04	$886.20
Employment	Textile	Non-Metal	38%	0.7
% Of Non-Productive workers	Non-Metal and pharmaceuticals	Textiles	48.6	24.8
Change in employment 1990-2000	Food/Beverage	Textile	897	-2440
Days lost to strike (Average)	Wood	Pharmaceuticals	7.1	0.2
% Attended higher education	Pharmaceuticals	Wood	28.6	11.4
Monthly cash earnings of workers in US$ (Average)	Food/Beverage	Wood	194.8	61.2
Average NPC (output)	Food/Beverage	Pharmaceuticals	1.495	1.156
Average NPC (Raw Materials)	Food/Beverage	Non-Metal	1.291	1.113
Capacity Utilization (%)	Food	Metal	59.1	39.7
Expected sales increase in the next three years (%)	Food	Textile	84.9	55.9
% Planning to invest in next year	Food	Non-Metal	778.9	40
% Planning to invest in next three years	Food	Non-Metal	72.7	20

Source: World Bank, RPED Nigeria, 2002 and UNIDO, Albaladejo, Soederbom and Teal, World Bank, 2002.
*NPC stands for Nominal Protection Coefficient

As indicated earlier, the problems of the sector are multiple and have been recognized for years. All manner of preferences have been extended to this sector to jump start manufacturing in Nigeria, including preferential credit and foreign exchange allocation to the sector during the period of import licensing and direct credit allocation; special (development) banks to channel subsidized credit to the sector, high levels of protection against infant industries through high tariffs and non-tariff barriers; tax concessions; etc (see Box 3.1). See also section on Government promotion of Businesses later in this Section of the Report.

Box 3.1: Some of the Policy Responses to Promote Manufacturing

- Directorate of Foods, Roads and Rural infrastructure established in 1986 to coordinate and streamline all rural development and accelerate the pace of integrated rural development
- Raw Materials Research and Development Council found in 1987 to enhance the local sourcing of raw materials *(Still in progress)*
- Peoples Bank of Nigeria (PBN) found in 1989 to make available the provision of micro credit at low interest to encourage small enterprises *(Still in place)*
- National Board of Community Banks (NBCB) set up in 1991 to promote concessional micro credit *(Still in place)*
- Family Economic Advancement Programme (FEAP) was found in 1992 in order to provide access to credit for micro entrepreneurs at the grass root level. It also has as one of its objectives the encouragement of job-creation, local raw materials sourcing and utilization, and above all indigenous technology development.
- Other programmes include:
- Small Scale and Medium Enterprises set up to locally appropriate equipment for small-scale operations through micro credit facilities development and establishment of industrial centre in each state of the Federation.
- Separate Small and Medium Industries Development Agency (SIMDA) established in 1993 to encourage local sourcing of raw materials, promotion of community based enterprises to the pursuance of a wide range of income-generation activities across communities and encouragement to the private sectors through the provision of micro-credit facilities.
- Export Processing Factory Scheme for small and medium-scale enterprises with the view of stepping towards benefiting from the United States African Growth and Opportunities Act (AGOA) through the encouragement of integrated, export oriented and cross-regional Small and Medium Enterprises.
- Small And Medium Industry Equity Investment Scheme by the deposit money banks to plough back 10% of their pre-tax profit into SME's as part of their contributions to growth stimulation.
- The restructuring of the National Electric Power Authority (NEPA)
- Raw materials Research and Development (RMRD) council to oversee all the various efforts by the public and private sectors in research and development
- National Office for Technology Acquisition and promotion (NOTAP) found in 1979 to facilitate and promote the acquisition of foreign technology for rapid industrial and economic transformation

Sources: Industrial Policy For Nigeria. Federal Ministry of Industry Abuja, Strategy to Eradicate Poverty in Nigeria by the FG Inter-Agency Guidance Committee o the PRSP and Nigeria: Targeted Poverty Reduction presented by Inter-ministerial technical Committee on Poverty Reduction for Ministry of Finance Abuja.

3.1.2.b: Textiles and Apparel

Many analysts believe that Nigeria's textile industry has all the potentials to become a major growth pole of the manufacturing sector. Currently, *t*he textile industry is the largest sub-sector of the manufacturing sector (17%) especially in terms of employment (38 percent), but it has also had the most disappointing performance in the last five years. Indeed, the textile industry has great potentials in today's global market to generate huge employment and foreign exchange gains, as suggested by the experience of China and other countries.

Industry participants seeking greater protection blame Nigeria's problems on 'dumping' of sub-standard and cheaper textile materials from abroad following trade liberalization in the sector. Imports of textile materials have surged from a growth rate of 1.9% in 1997 to 33.5% in 2001. Consequently, Government's reaction was to ban the importation of textile into Nigeria as from 2002. However, as is true of other manufacturing sectors, dumping may not be the major problem. Protection is used as a 'compensating mechanism' for the atypically high cost of doing business. Over the medium to longer term, the solution would lie in addressing these constraints rather than relying on infant industry protection, which suffers from a time inconsistency problem.

3.1.2.c: Non-oil natural resources

Nigeria is said to be richly endowed with abundant non-oil natural resources, including the solid minerals such as cassiterite, columbite, coal, marble and limestone. These are under the broad cover of Mining and Quarrying sub-sector of the industrial sector. Other energy resources present in Nigeria include tar sands, lignite and solar energy. Much of the potentials in this sub-sector have not been exploited with the result that their contribution to GDP is miniscule. Not only does it contribute the least but also its contribution since 1985 has been dwindling.

Table 3.7: Energy Resources Estimates in Nigeria

Resources	Unit	Quantity
Coal	10^7	450
Hydro	MW	8000
Firewood	$10^6M^3/A$	50
Bitumen	MJ/CM^2	16.23

Source: National Planning Commission (NPC), Long Term Perspective Plan for Energy and Hydrocarbon (1992) and Vision 2010 Document

3.1.2.d: Non-financial services

As observed earlier, the services sector has been the fastest growth sector of the Nigerian economy since independence. But growth and development among the components of the sector are uneven. The Nigerian service sector is divided into the Financial and the Non-Financial Service sectors. While the financial service sector comprises of finance and insurance services, the non-financial service sector encompasses the transport, communication, utilities, and hotel and restaurant services. Others in the non-financial service sector include the real estate, housing, producers of government services and the community, social and personal services. The non-financial sector is known to contribute more than the financial sector to the economy's GDP.

Within the Non-Financial service sector, Producers of Government Services contribute higher than the other sub sectors to the growth of the economy followed by the Transport and Housing sub-Sectors. Also communication and Real Estates sub-sectors are the lowest contributors in the Non-financial service sector. However, a key feature of the services sector is the relative stronger growth performance of the financial sector in comparison with other services sectors.

Table 3.8: Service Sector Contribution to GDP

Indicator	1981	1985	1990	1992	1995	1997	1999	2000	2001
Financial	3.41	3.37	8.73	8.75	9.17	9.33	9.61	9.62	9.67
Non Financial	21.76	20.14	18.47	19.02	20.25	18.18	18.54	18.41	18.61
Percent share of services in Non-oil	29.28	27.69	31.22	32.07	33.67	31.57	31.53	31.68	31.65
Service	25.17	23.52	27.19	27.77	29.41	27.51	28.14	28.03	28.28

Sources: CBN statistical bulletin Dec 1998, CBN Annual Report and statement of Accounts Dec 2001,

3.1.3: Agriculture

Increasing agricultural productivity and effective rural development hold the key to the strategy for poverty reduction in the medium term. Currently, the sector accounts for about 40 percent of GDP (or about 52 percent of non-oil GDP), employs about 50 percent of the labour force, and accounts for about 90 percent of non-oil exports. It is estimated that about 70 percent of Nigeria's poor eke their living in peasant agriculture and are domiciled mostly in the rural areas. Only about 40 percent of the cultivable land is under cultivation. Among the States, which have the most abundant land areas are Niger and Borno states—but ironically, poverty is also acute in these states.

As in many other African countries, agriculture in Nigeria faces several challenges--- low productivity, limited capitalization, small size of land-holdings (more than half of the farms are one hectare or less), and declining soil fertility. Women now constitute the bulk of the labor force---with the average age of the labor in the sector at about 50- 60 years, and real wages in the sector are rising, albeit with low productivity. It is estimated that labor costs account for about 50 percent of production inputs, as labor still relies on primitive implements such as hoe and matchet. There is very little mechanization of the sector. Areas of high productive potential include the Middle Belt region (North Central) and the riverine areas--- and many other areas have limited potentials—areas that are very densely populated or with limited rainfall or that are distant from markets.

Over the years, especially since the oil boom of the mid-1970s, agriculture has stagnated on account of neglect and the impact of the Dutch Disease. Exports have stagnated and largely declined in both volume and value as Nigeria has consistently lost market shares even in the traditional products. Groundnuts (in the North) and palm produce (East) used to be major exports in the 1960s and early 1970s, but they are no longer exported--- at least through the official channel[23]. The World Bank, et

[23] The tragedy of Nigeria's loss of market shares can be illustrated with the example of the palm produce. In the 1960s, Malaysia came to Nigeria and borrowed palm seedlings and learnt the technology of palm production. Malaysia has become the world's largest palm produce exporter—with the value of its palm exports higher than Nigeria's export earnings from oil, but Nigeria has become a net importer of palm produce.

al, (2000) estimates that the loss of market shares in traditional exports has cost Sub-Saharan Africa several billions of dollars per annum since the 1970s, and Nigeria is a classic example. Cocoa production—which is still the dominant agricultural export, has stagnated. Over the years, the share of agriculture in total GDP has been fairly constant.

A key feature of the agricultural sector is the dominance of food crops (see again table 3.1, and table 3.9 below). Evidence points to substantial harvests that spoil because of marketing, storage and processing problems. Moreover, while certain areas have large surpluses, other areas have large deficits, and the marketing system is unable to move food cheaply from surplus to deficit areas. Furthermore, as indicated earlier, despite the dominance of food crops in total agricultural output, Nigeria faces increasing food shortages leading to rising food imports (which now account for about 14.5 percent of total imports).

Table 3.9: Agricultural Sector Performance

Industry	**1980**	**1985**	**1990**	**1992**	**1995**	**1997**	**1999**	**2000**	**2001**	**2002**
Agric contribution to GDP	36.22	41.36	38.36	38.5	39	39.9	40.8	41.5	41.06	
Agric to Non-Oil Exports (%)	61.4	52.1	87.6	76.9	67.2	68.0	92.6	97.7		
Sectoral Contribution to Agriculture GDP (%)										
Crop Production	72.4	75.5	77.2	78.6	80.0	79.6	79.8	79.8	79.8	
Livestock	15.9	17.2	14.6	13.8	13.6	13.3	12.7	12.4	12.5	
Forestry	5.0	4.6	3.4	3.4	3.4	3.2	2.9	2.8	2.8	
Fishing	6.2	2.7	4.8	4.3	3.1	4.0	4.0	4.3	4.7	

Source: Calculated from Statistical Bulletin and CBN Annual Report, and Statement of Account 2001

3.1.3.a: Crop production

In 1996, a total of 33 million hectares were cultivated with crops generally; out of which 17.7 million hectares were for staples and 4.9 million hectares were for industrial crops (Ministry of Agriculture). The crop production sector remains the largest contributor in the entire agricultural sector. Not only that it contributes higher than all the other sectors put together, the crop production sector has been maintaining a steady (though little) increase in its productivity. This sector is made up of cash crops and staple foods. The principal cash crops include cocoa, Benniseed, coffee, copra (Arabica), Cotton, Groundnut (Unshelled), Ginger (Peeled), Palm Kernel, Palm oil (Special), Soya bean, Kola and Rubber while staple foods include rice, maize, yams, cassava, sorghum, millet, etc.

3.1.3.b: Livestock

Livestock rearing is a very important aspect of agriculture in Nigeria, and this is dominantly a Northern occupation. Cattle rearing has been given the greatest prominence in discussions of Nigeria's livestock industry. The country's cattle territory is essentially in the Sudan Savannah with its limiting factors as the amount of water supply available due to the movement from the north or the Middle Belt or Guinea Savannah towards the Sahara and the existence of tsetse fly infested forests to the south. This main cattle i.e. the northern territory contains about 90% of the country's cattle population. The two other cattle-producing areas are the southern forest zone where the Muturu cattle, which is tolerant to typanosomiasis, is found, and the Guinea Savannah where the Ndama cattle and crosses of Muturu and northern Zebu cattle are found (Federal Ministry of Agriculture). These two lesser areas contain the remaining 10% of Nigeria's cattle population. In the cattle territory is found also about 70% of the country's population of sheep and goats that have adapted to the ecological constraints. In the Guinea Savannah and Southern forest zones is found the remaining 30% made up of the indigenous dwarf breeds of sheep and goats. Various exotic breeds of pigs are found in different areas of the country while present is also very large population of poultry, especially the local breeds reared under free-range conditions. Commercial production of poultry and pigs takes place in various states of the Federation.

3.1.3.c: Fisheries

Fishery in Nigeria is mainly done by the artisanal sector with the coastal and brackish waters constituting the major areas of production, followed by inland rivers and lakes. No attempt has yet been made at separating the production into coastal and brackish water sources because of the close similarity in the utilization of fish. Also it has not been easy trying to separate or classify the fishing communities into those that operate at sea and those that carry out their operations in the lagoons, creeks and other brackish water environments. Production from aquarium culture is still low in Nigeria while production from industrial fishing, which comprises the commercial trawlers, is also low compared to that of the artisanal. These factors have made fish production to depend largely on small-scale fishermen. The demand for fish in Nigeria today is certainly greater than the total production from her domestic sources, which results in the imports of more than half of the fish that is consumed in the country.

3.1.3.d: Forestry

This sector is the smallest contributor in the entire agricultural sector of the economy. But it is interesting to note that besides its little contribution in relation to other sub-sectors, the forestry sector has been improving in its productivity since 1996. The two main forestry products in Nigeria are the round wood and sawn wood. There has been a decrease in the growth of the round wood between 1996 and 1998 while the reflex sawn wood has been experiencing a boom, which might be attributed to consumers requirement.

3.1.3.e: Constraints to agricultural productivity

Surveys of the agricultural sector by the Federal Office of Statistics indicate several challenges to its productivity, including:

- A persistent urban bias in policy, notably in price policy and public spending, resulting in a highly unbalanced distribution of resources between the rural and urban sectors and within rural groups. A key example of this relates to subsidized fertilizer distribution which hardly reach the rural farmers and cooperatives as middlemen and contractors who have contacts buy up the fertilizer and resell to the actual farmers at much higher prices.

- Widespread public sector engagement in what should be private enterprise, and continuing government over-regulation of private sector activities in the sector
- An unstable policy commitment to improving rural living conditions;
- Very inefficient public spending for rural development
- Insufficient involvement of rural people in policy dialogue and decisions which affect their lives;
- Low productivity because of inherently difficult natural conditions for agriculture in some areas, exacerbated by increasing deforestation and unsustainable land use practices and because of the high costs of transferring technology from other areas of the world;
- Low productivity even where natural resources are more abundant—the result of weak growth in the non-farm sector, and a lack of human and physical capital investment in rural zones;

3.2: Constraints to Firm Competitiveness

As already indicated earlier in this Report, firms in Nigeria face atypically very high transaction costs, which make them highly uncompetitive. The sources of the high transaction costs and inefficiency are many and varied, and from diverse surveys, many factors have been highlighted (see Box 3.3 below).

The private sector firms suffer from high costs and lack of competitiveness (see Box 2.7 above). Relative to other African countries (evident from a survey of international businesses working in Africa), Nigerian firms face atypical challenges in the following areas (see World Bank Interim Strategy Document, 2001, p.12):

- *Infrastructure:* Roads, railways, ports and airports were given the least satisfactory assessment of twenty-four African countries by the business community;
- *Customs*: The average customs clearance time reported by firms is 25 days, putting Nigeria twenty-second out of 24 countries surveyed;
- *Telecommunications:* Nigeria is ranked 20 out of 24 African countries (twenty-second in internet access and twenty-third in terms of telephone price);
- *Hidden import barriers*: lack of availability of export credit, multiple licensing and regulation requirements and the overvalued exchange rate reduced Nigeria's rating in these areas by businesses to 23 (out of 24);
- *Security*: Negative perceptions of security and organized crime remain strongly evident among businesses, with Nigeria ranked twenty-third out of 24 countries;
- *Education:* Quality of university education is seen by businesses as among the lowest quintile in the sample of countries; and
- *Policy:* Finally, Nigeria was seen as the third most problematic country in the sample in terms of policy volatility.

Box 3.3 : Constraints to Manufacturing Productivity

Various surveys (e.g. RPED 2001) have pointed to the following as some of the constraints to firm level competitiveness in Nigeria.

- Inadequate and poor infrastructure

- Cost and availability of credit
- Insufficient domestic demand
- High level of corruption
- Policy and socio-political uncertainties
- Weak judicial system and poor enforcement of contracts
- Low level of education
- Inappropriate and dearth of new technology
- Low level of labour skill
- Ethno-Linguistic Fractionalization
- Geographical constraints
- Low level of political rights
- Firms Inability to cope with large shocks
- Ineffective Insurance market
- Unable to meet International Standard
- Distortions due to the degree of control exercise by the government over markets
- High rates of morbidity especially Malaria and HIV/AIDS.
- Problems with local sourcing of raw materials, and high import dependence
- High Trade barriers (Tariff)
- Poor Public Service Delivery
- Lack of export awareness or culture of export among Nigerian firms
- Price and Exchange rate instability
- Insufficient emphasis on Research and Development activities
- Ineffective regulatory institutions which manifest in port duties, export bottlenecks, bureaucratic delays and rent seeking

We briefly elaborate on three clusters of constraints: infrastructure—especially electricity and land tenure system; access and cost of finance; and other general business environment—corruption, legal and regulatory environment; and the customs and trade policy[24].

3.2.1: Infrastructure: Electricity

Of all the problems affecting firms in Nigeria, problems over the infrastructure are by far the biggest, ranking nearly two-and-a-half times worse than the next biggest problem - which is finance. Some 94 percent of the firms in the World Bank RPED survey reported deficiencies in the supply of electricity as by far the biggest infrastructure problem faced by firms. This has raised the cost of doing business such that Nigerian firms are increasingly unable to compete with their competitors in South East Asia and even ECOWAS. For example, whereas in Nigeria firms relied on average on self-generated power for 67 percent of the time, in Ghana firms could report using self-generated power for up to 10 percent of the time.

From the RPED survey, almost all the firms have their own generators to provide their own electricity as shown in Table 3.10--about 93 percent of the smallest firms (20-49 employees); some 97 percent of the small firms (50-99 employees); all the firms with between 100 and 999 employees

[24] These analyses draw heavily from the Report of the World Bank's RPED manufacturing sector survey in Nigeria, involving 232 firms (2001) and the Report of the private sector assessment (World Bank, 2002).

have their own generators; and, finally, 66.7 percent of the largest firms (with over 1,000 employees).

Private provision of electricity is very expensive and adds to the high cost structure. Also, the difference between the private and public provision is quite high (see table 3.12 below). Private provision of electricity takes up a substantial proportion of firms' capital investment. As shown in Table 3.13 below, on average some 22 percent of the total value of equipment and machinery is represented by generators and accessories, such as cabling but this figure varies from region to region. From the results of the RPED survey, it appears that the share of electricity provision in total cost is rising. For example, the overall average of some 22 percent is more than double the finding observed in the 1988 World Bank Infrastructure Project Establishment Survey, at which time the overall average was 9.96 percent, with the small firms having an average of 22.1 percent, and the larger ones an average of 9.65 percent.

Table3.10: Percentage of Firms with Private Generators

Employment size	Location			
	East	North	South	All
20-49	93.3	91.7	94.1	93.4
50-99	100.0	100.0	94.2	97.4
100-199	100.0	100.0	100.0	100.0
200-499	100.0	100.0	100.0	100.0
500-999	100.0	100.0	100.0	100.0
1000 and over	66.7	100.0	100.0	94.1
All	95.7	98.2	97.7	97.4

Source: World Bank, RPED, 2001

Table 3.11

Percentage of Firms which Reported Electricity as their Biggest Infrastructure Problem

Employment size	Location			
	East	North	South	All
20-49	100.0	91.7	90.1	93.3
50-99	88.9	100.0	94.1	94.9
100-199	90.0	91.2	92.9	92.0
200-499	87.5	91.0	100.0	96.0
500-999	100.0	100.0	100.0	100.0
1000 and over	66.7	80.0	100.0	88.2
All	91.5	92.9	95.3	93.9

Source: World Bank, RPED 2001

Table 3.12: Cost of Publicly Compared to Privately-Provided Electricity (N. per KwH)		
	Publicly provided	Privately provided
Lowest (N. per KwH)	5.36	9.00
Highest (N. per KwH)	20.76	39.60
Mean (N. per KwH)	7.86	19.05
Mean (USD. per KwH)	0.07	0.16

Source: World Bank, RPED 2001

Table3.13: Value of Generators and Accessories as a Percentage of Total Value of Equipment and Machinery				
Employment size	Location			
	East	North	South	All
20-49	16.6	21.7	23.3	20.9
50-99	55.3	12.7	17.9	27.2
100-199	31.8	14.0	16.1	18.9
200-499	7.0	8.9	18.8	14.9
500-999	61.2	21.1	19.6	29.2
1000 and over	11.2	35.8	44.1	37.5
All	30.3	16.7	20.6	21.9

Source: World Bank, RPED 2001

3.2.1.a: Land acquisition and registration

Securing land tenure is a major barrier to investment and private sector competitiveness in Nigeria. By the federal Land Use Act (1978), Nigerian land is publicly held, and falls under the State Government jurisdiction. The power to approve land transfers is vested in the state governors, although a customary land allocation system also operates in parallel to the state system in most states. In principle, leases of up to 99 years are available but getting such titles is very cumbersome and costly.

Land acquisition is costly in terms of money and time. For example, surveys indicate that state governors could take from six months to ten years to approve land transfers. And permission to lease land as security must be approved separately. The limited land on private market is available at perhaps four to five times the price of state land, but the acquisition of land with secure tenure invariably still requires the state governor's approval. Investors report that identifying available land is a problem in Nigeria because of poor record keeping, variation in procedures from state to state, and a backlog of unresolved title disputes. The problem of accessing accurate information is further exacerbated by the lack of computerization in most individual states' land registries, much less a national digital databank of survey and title records.

3.2.2: Cost and Access to Finance:

According to the RPED survey data, lack of finance is the second most important constraint to the Nigerian manufacturing sector. While almost all firms have relations with banks and are able to access at least some external finance, it is very costly and for most firms, insufficient. Inadequate access to finance appears among firms' three biggest business problems more often than any other problem except uncertainty and poor infrastructure. Lack of credit forces enterprises to rely on internally generated funds both for working capital and for investment. This hampers firms' ability to manage their working capital, making it difficult for them to increase sales and operate at full capacity. The shortage of finance also limits investments to improve technology, lower costs and expand output. The high cost and limited availability of credit is a major factor that raises the cost of doing business and lowers competitiveness in Nigeria.

The bulk of available credit comes from domestic banks; more than 77 percent of firms reported that they had access to bank credit. Banking facilities are spread throughout the country and are widely available.

Table 3.14: Percentage of Firms Having Access to External Credit

Group	**Percentage Constrained**
Full Sample	80.3
Micro	51.7
Small	81.8
Medium	89.8
Large	100.0
Very Large	93.1
Foreign Owned	93.6
Indigenous	70.2

Source: World Bank RPED, 2001

Despite the widespread availability of credit facilities, firms feel that inadequate finance is a major impediment. According to the data in Table3.15, almost 40 percent of the sample said that they were credit constrained — they can not borrow as much as they would like at current interest rates. Only 23 percent of the sample reported having bank loans (this does not include overdrafts) and 20 percent of the sample said that they had been rejected for a loan sometime in the past. More than half the firms stated that they had never applied for a loan. Almost half of these firms said they would like a loan, but that interest rates and collateral requirements were too high or that they did not think they would be approved for a loan.

Table3.15: Percentage of Firms Reporting Being Credit Constrained

Group	**Percentage Constrained**
Full Sample	38.5
Micro	48.2
Small	38.6
Medium	36.7
Large	36.1
Very Large	25.0

Foreign Owned	33.3
Indigenous	42.5

Source: World Bank, RPED 2001

The larger a firm is, the more likely it is to have access to external sources of credit. Almost 100 percent of firms with more than 250 employees have access to credit compared to only 52 percent of micro firms and 80 percent of small firms. Over 90 percent of foreign firms have access while just over 70 percent of the indigenous firms do. This does not necessarily mean that small firms are cut out of the market because they lack collateral or are considered more risky. It may be that large firms require larger amounts of capital. However, almost 50 percent of the micro firms and over 35 percent of small firms report being credit constrained as opposed to 25 percent of the very large firms. Foreign firms were also less likely to report being constrained than indigenous firms. This suggests that small firms and indigenous firms may be rationed out of the credit market.

Banks in Nigeria are highly liquid and report that they would like to make more industrial loans. But they believe that lending to the manufacturing sector is very risky and increasing credit to the manufacturing sector is not justified in terms of risk and cost. The high risk comes from a number of sources. It is difficult to obtain information on a firm's true financial condition and performance. The judicial system is reportedly inefficient; banks cannot easily enforce contracts. The business environment in general is very risky and uncertain so firms may not be able to service debt. Consequently, banks charge high interest rates, demand high levels of collateral and make few loans of more than a year in term. Companies report that overdraft limits are determined by companies' ability to provide collateral and not by their business plan or future potential.

Long term finance is very rare and only the most creditworthy receive it. According to Table3.16, less than 16 percent of the sample reported having loans with a term of more than one year. Medium and large firms were more likely to have long term loans. Very large firms tend to have enough internal sources of funds and the smaller firms are often viewed as less credit worthy. Foreign owned firms were almost twice as likely to have long term loans than indigenous firms, reflecting the fact that they are usually part of a group or subsidiaries of larger firms who are able to supply them guarantees. The lack of long term credit forces companies to finance investment with internal funds or overdrafts. Firms are often forced to delay investment until they have built up the necessary capital. Some firm managers reported that since they had to rely on short term funds, they were hesitant to undertake major investments because they could not be certain to have the funds to complete them.

Table3.16: Firms Receiving Long Term Loans

Group	Percentage Constrained
Full Sample	15.6
Micro	12.1
Small	11.4
Medium	20.4
Large	20.5
Very Large	10.3
Foreign Owned	21.3
Indigenous	11.3

Source: World Bank, RPED 2001

3.2.3: General Business Environment: Corruption, Regulatory Framework, customs procedures

It is usual to focus the assessment of business environment on the legal, policy and institutional factors affecting business--- investment policies and incentives, business taxation, trade promotion policies, business registration and regulation, commercial law, and the capacity of various institutions to implement those policies and programmes. In Nigeria, there is a need to go beyond these traditional areas. For example, a major defining feature of the Nigerian business environment is the pervasive legacy of widespread corruption and the breakdown of the normal institutions of civil society which act to ensure a supportive business environment. These are pervasive yet intangible factors which are especially important in the Nigerian setting—impacting on private sector investment and the growth of the economy. While not uncommon in other developing and industrial countries, their impact has been much greater and more destructive to a dynamic economy in Nigeria than in most other countries. This section draws on a diagnostic study conducted by FIAS of the overall environment for foreign direct investment as well as the private sector assessment of the World Bank (see World Bank, Private Sector Assessment Report).[25]

3.2.3.a: Corruption and rent-seeking

In the past decade, and perhaps for even longer, Nigeria has consistently been rated by various indicators as one of the most corrupt countries. In recent years, it has consistently been placed at the bottom or next to last as the most corrupt country in a ranking of perceptions of corruption by Transparency International. The most pervasive abuses of political power for private gain have come from the mismanagement of public resources, the scale of which has been made possible by oil revenues flowing to the federal government. This large scale corruption from diversion of public resources has a direct effect on the private sector, in that it makes participation in those activities the most lucrative form of business. Therefore, a great deal of private initiative has gone into ultimately unproductive pursuits such as brokering contracts, providing middleman services in the diversion of funds, and developing uncompetitive firms in construction and other services which rely on patronage in winning contracts rather than their capacity to perform, cost effectiveness and efficiency. The large scale corruption of public procurement has skewed the incentives to the private sector away from productive activities.

However, corruption has a broad impact beyond those firms directly participating in the diversion of public funds. The main areas in which corruption affects the business community on a broad basis are in the enforcement of regulations, taxes, and provision of key services. This impact is negative, and hence tends to raise the cost of business for otherwise legitimate firms, increase uncertainty, and hence further exacerbate the skewed incentive system away from long term productive investments by the private sector.

The current government has made fighting corruption a priority, and has taken major steps towards curtailing the most egregious sources of diversion of public funds. These have included passing the Corrupt Practices Act, and establishing the Independent Corrupt Practices and other Related

[25] Foreign investment advisory service, Nigeria: Joining the Race for non-oil Foreign Investment, December, 2000. a more detailed analysis of Administrative Barriers to Investment has also been prepared by FIAS

Offences Commission called for in that legislation. In so doing, it has also begun to change the perception of the acceptability of corrupt practices, which most Nigerians have viewed simply as a fact of life. This has no doubt had some impact on the scale of corrupt practices, particularly those undertaken on a grand scale. However, despite the public declaration of commitment, progress has been slow. From the private sector's perspective, the new thrust of the government does not appear to have changed the reality on the ground for most businesses, where corruption in the enforcement of regulations, administration of taxes, etc. remains a fact of life.[26] This in part reflects the difficulty in combating a system of corruption, which is so deeply ingrained into most Nigerian institutions and practices.

Other elements of the business environment– the complex regulatory environment, policy instability, the predominance of state owned enterprises, and layers of business regulation at the state and local level – all contribute to and enable corruption. While these other issues have their distinct effects on the business climate, they also tend to facilitate corruption by providing multiple opportunities for graft, patronage, and general intervention in private business affairs.

The major impacts of official corruption are well known, and are present in Nigeria. These are the increase in costs associated with paying bribes to conduct business, the uncertainty associated with uneven application of laws governing business, and the diversion of business activity into areas where rents could be captured. Thus, there is a highly uneven playing field that rewards those with access to public officials and increases the normal risks of business activity. Pervasive corruption in Nigeria has, over the longer term, also led to a number of more subtle but equally important impacts on the private sector (see the Private Sector Assessment Report for further details).

3.2.3.b: Poor Business Ethics

The business environment in Nigeria is worsened by poor business practices, fraud, and a lack of ethics in the privates sector itself. Trust is a scarce commodity. There is little basic trust among business partners, between management and employees, and in relations with suppliers and customers. The impact on business is indirect yet pervasive and acts as well to increase costs, risks and uncertainties as businesses develop special mechanisms to cope.

A major illustration of the fraudulent business environment is the famous "advance fee fraud", more commonly known as "419" from the section of the Nigerian Penal Code which governs these types of deceptive business practices. The basic lack of trust in business transactions typified by the 419 syndrome has a number of repercussions in business practice in Nigeria, all of which tend to increase costs and hamper private sector development. Routine credit among business is scarce, and cheques are frequently distrusted leading to most transactions being conducted on a cash-basis.

Another important factor is the lack of physical security and high crime rates in Nigeria, and the impact on business operations. Crime and security were ranked as a major constraint (in the top three) by 15% of the firms in the RPED survey, however this was much higher in Lagos than in other regions. The lack of security generally in society has several impacts on business operations.

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[26] The World Bank and USAID have also undertaken a comprehensive survey of the extent and impact of corruption, including among private businesses, and the results are very damning.

These two factors, the pervasive impact of corruption and the breakdown in business ethics, are distinctive characteristics of the Nigerian business environment. Their pervasiveness tends to color many of the more typical factors affecting the business environment.

3.2.3.c: Legal and Judicial Environment

The courts in Nigeria have been ineffective as the primary venue for enforcement of rights and dispute resolution. A general concern relates to the legacy of rules, regulations and legal practices from years of military rule. During the latest period, which ended with the change in government in 1999, Nigerian lawyers and judges confronted extra constitutional attempts by the government to limit the judiciary's jurisdiction. Although democracy and human rights received the greatest international exposure, commercial laws were also affected. Government contracts and concessions were routinely awarded through non-transparent means and without regard to merit. Laws were passed that forbade the importation of certain commodities in order to create lucrative monopolies. Some of these laws have been repealed; others have not. Successive military governments explicitly targeted the courts as an obstacle to the arbitrary mode of governance which prevailed, and their authority was purposely undermined. These efforts included the appointment of judges who were poorly qualified but politically loyal, as well as the chronic under-funding of the judiciary.

There are conflicting, confusing or obsolete regulations. One example is overlapping jurisdiction in the approval of expatriate work quotas and permits by the Nigerian Investment Promotion Commission (NIPC) and the Ministry of Internal Affairs. There is a requirement under the federal land law that all land transactions and mortgage applications be approved by state governors or attorney generals on their behalf. Companies report that they must rely on lawyers to complete routine interactions with government, including company registration and licenses that elsewhere could be handled directly.

A primary concern for investors is Nigeria's poor track record in the enforcement of contracts between private companies, as well as between firms and government, is in part attributable to poor business practices. The principal reason is slow, inefficient and corruptible courts. Foreign investors also charge that local magistrates are likely to side with a Nigerian against a foreigner, regardless of the legal merits of their case. Most common disputes are settled out of court. Some firms stated that even the most frivolous claims against a company sometimes result in the firm making a 'negotiated payment" because of a lack of faith in the efficacy of the official legal system. The backlog of cases in the courts is large, their treatment slow, and reaching a decision in the courts typically takes years. A land case brought up though various levels and settled only in 2000 in the Supreme Court has taken

In the case of intellectual property rights (IPRs) and trademark laws, legislation exists but enforcement is weak. Enforcement is currently left to the trademark or IPR owners and some business groups working with informants and law enforcement agents. An increasing number of IPR violation cases have been successfully prosecuted in Nigerian courts. Some government officials attribute shortcomings to inadequate financing of the civil service, the absence of computers at main agencies, poor power supply, and limited access to training and management expertise. Personal and political influence has also been significant in public sector hiring practices. Some public managers concede that productivity is low. Some intermediaries, including accountants and lawyers, point to a persistent attitude within the government that business cannot be trusted.

3.2.3.d: Customs procedures

Customs procedures and their enforcement are some of the most contentious and inefficient aspects of government regulation in Nigeria. In the estimation of many shipping and logistic firms it is arguably the most uncertain customs environment in the world. The myriad of customs regulations, import documents and government agencies involved in export and import procedures hurt Nigeria's competitiveness. False invoicing, counterfeit documentation, extortion, fraud, unclear security arrangements and other hazards increase the costs of imports by an estimated 45% (World Bank, RPED survey, 2001). The combination of corruption, inefficiency and slow, poor infrastructure, and other factors have made Lagos port amongst the most expensive in the world. The imbalance between imports and exports also raises the cost of shipping, with most ships that arrive full departing only 25% full. Estimates by private shippers suggest that "associate port costs" at Lagos are roughly three times higher than any other West African Port, at approximately US$200 per container. Import clearance, meanwhile, takes 4 to 25 days on average. Reportedly exports are cleared at the quicker, yet still inadequate, speed of four to ten days. As a result of these inefficiencies, much of Nigeria's trade is diverted through Togo and Benin, and conducted on an informal basis**.**

Some of Nigeria's high tariffs have been reduced in recent years, but many products continue to attract high rates. Tariffs are assessed on an ad-valorem or commodity specific basis depending on the type of good being imported, and are payable in Naira upon entry. Apart from tariffs, additional duties on imports include VAT at 5%, an import duty surcharge of 7% of the normal duties assessed, a 2% "landing charge" on motor vehicles, and a 5% sugar levy on sugar imports. Nigeria does not have fully elaborated anti-dumping regulations, but a special duty may be levied on imports if the government suspects that a particular product is being unfairly subsidized or dumped on the local market.

Officially, seven government agencies are allowed to operate in Nigeria's sea and airports. These are Nigerian Ports Authority, the Federal Aviation Authority of Nigeria (FAAN) (for airports), Nigerian Customs Services, the Port Police, the Nigerian Immigration Service, the Standards Organization of Nigeria (SON), and the National Agency for Food and Drug Administration and Control (NAFDAC). Each has the right to inspect imports and exports, for example, in order to ensure compliance with Nigeria's product, health, safety, and environmental standards. Only the Customs Service is empowered to assess and collect duties, which can be paid to an authorized accountant or bank.

Nigeria has made efforts to improve its poorly reputed customs procedures in recent years. For example, the authorities have begun to implement the internationally recognized Automated System for Customs Data Entry and Control (ASYCUDA) and Nigeria has joined the World Trade Organization. In another effort to reform the system in 1996 a pre-shipment inspection (PSI) regime was introduced. Although this reform boosted revenues, each shipment required an import duty permit, and in many ways impeded the clearance of goods. A subsequent attempt to introduce a destination inspection system in 1999 failed. Under Nigeria's prevailing PSI regime, as stated in the official *guidelines for imports into Nigeria*, all imports must be accompanied by a clean report of findings (CRF) and an Import Duty Report (IDR) issued by a designated PSI company. Importers are also becoming increasingly frustrated with arbitrary interpretation and application of Nigeria's health, safety, and environmental standards by inspection agencies. Some importers and government officials insist that SON and NAFDAC staff need additional training and better testing facilities in order to do their jobs effectively. Publicly owned port facilities and equipment in Nigeria seem to be inefficient and outdated, especially in Lagos. The infrastructure at the ports varies in quality, but all of Nigeria's publicly owned facilities need upgrading. A private shipper estimates that cranes in Lagos are out of service four out of every five days.

3.3: Government Business Promotion Policies and Their Weaknesses

3.3.1: Customs and Trade Policy:

In Nigeria, as in most countries of the world, there is a plethora of incentives, schemes and programs to promote trade and industry. For Nigeria, these promotional measures have ranged from manufacture-in-bond scheme, duty-drawback scheme, export processing zones, to highly protectionist and dispersed tariff regime and other import prohibition measures designed to protect 'infant industries' (see Box 3.4 below for summary of the gamut of incentives as detailed in the new Trade Policy of Nigeria). The key concern is that these incentives have been largely ineffective as the export of non-oil products has been declining, and the intended beneficiary of the protectionist regime--- local manufacturing sector--- has also been comatose.

Box 3.4: Trade and Commercial Policies to Promote Trade as Contained in Nigeria's Trade Policy

- Export Promotion through product diversification, standardization and quality improvement.
- Strengthen and improve the institutional framework for providing better support services to exporters and export-oriented industries.
- Provision of incentive packages as well as human resources development programmes for the promotion of entrepreneurial and managerial skills in the context of a competitive international environment.
- Diversify and increase export of high value-added manufactured products, which depend on the natural resources where Nigeria has comparative advantage.
- Encourage the acquisition and adaptation of environment friendly technologies to ensure that Nigerian products meet the required international standards.
- Establish border markets to promote legal trading across Nigerian borders and so discourage smuggling.
- Export House strategy through NEXIM give lift to local Entrepreneurs with high export potentials.
- Through privatization release saving funds that would have devoted resources for development by saving funds that would have gone to subsidizing loss-making enterprise.
- Ensuring that the enabling law establishing the Anti-Dumping Authority takes into account all the enforceable remedies available to Nigeria including the WTO Agreement on safeguards in order to ensure strict compliance.
- Strengthening and enforcement of intellectual property rights including copyrights, patents, trademarks, designs, etc.
- Provision of a legal framework for the integration of the informal sector into the mainstream of the economy to increase earnings and promote inter-regional trade and cooperation.
- Designing more effective mechanism to control smuggling and guaranteeing adequate and fair returns on investment.
- Product tracking through the creation of appropriate export zones for the products and establish the zonal headquarters in one of the countries of destination.
- Creation of market niches
- Promotion of technology acquisition and entering into technology transfer arrangement where necessary through Berne and Paris conventions of the WIPO and Trade Related Intellectual Property Rights (TRIPS) Agreement of the WTO.
- E-Commerce through the establishment of inter-agency mechanism to study the potentials and implications of e-commerce on the Nigerian economy and make recommendations.
- Research-to-Industry linkage (RIL) to facilitate the translation of R&D results into useful goods and services. Such policy addressed taxes, interest rates, and other incentives.
- Short-Term capital financing for exporters to boost competition through medium term credit to finance machinery and equipment required to manufactured goods for export market.
- Transport and communication: measures to privatize roads, rail, and airline and communication services.
- Ensure a more competitive banking environment through provision of engender more competitive deposit rates to aid in the reduction of the large spread between the savings and lending rates

- Encouraging manufactures to establish warehouses/depots throughout the country to facilitate overall availability of consumes goods.
- Removing all obstacles to the flow of goods such as roadblocks.
- Encouraging the organized private sector to participate in entrepreneurial development programme.
- Control of trade malpractices
- Provision of infrastructural facilities at affordable prices
- Provision of adequate, efficient, safe, affordable, cost effective and well-maintained road, rail and Air transport system to link the urban and the rural.
- The provision of export incentives through the export development fund, Export Expansion Grant Fund, Duty Drawback Scheme, Pioneers Status, Capital assets Depreciation Allowance, investment tax Credit scheme, Tax Relief Interest Income, Rediscounting of Short-Term Bills, Retention of Export Proceeds, Export Credit guarantee and insurance Scheme, Manufacture-in-Bond Scheme and Counter-Trade Arrangement/Buyback Scheme.

Source: Trade Policy of Nigeria (Final Draft Rev.2) Federal ministry of Commerce Abuja. September 2001

3.3.1.a: Export promotion measures:

Some of the export promotion measures are discussed as follows[27]:

Exporter grants and duty drawback schemes

Nigeria, like all other countries actively promoting exports, has some form of export schemes, which extend free-trade status to exporters, or reduce the import tax burden on export production. As with other incentives schemes are not highly utilized. The Export Expansion Grant and Duty Drawback System have recently been brought together under the Manufacturing In Bond (MIB) scheme. Investors apply for these either through the Nigerian Export Promotion Council or the Ministry of Finance, although the latter administers them. Export processing zones and industrial estates can help overcome, on a local basis, major barriers to investment, particularly red tape, and the lack of security and poor infrastructure. Furthermore, they can help build clusters of similar industries; they can offer superior infrastructure and utilities; and they can serve as a regional base for export.

3.3.1.b: Tariff and other trade policy measures:

Since the Structural Adjustment program (SAP) in 1986, Nigeria has embarked on series of liberalization schemes aimed at improving the competitiveness of the economy. Areas of the reforms pertaining to the current discussion pertain to sizeable devaluation of the hitherto highly overvalued Naira, and partial liberalization of the tariff regime and drastic reduction in non-tariff barriers (especially in the number of products outrightly banned). Despite the series of tariff

[27] See the IMF evaluation report on the Article IV consultation for detailed overview.

reforms, Nigeria's tariff structure has had a nominal protection level consistently above the average tariff level for developing countries.

Nigeria's current tariff structure features a tariff range- 0-- 100%, an unweighted average of 28%, 19 tariff bands, a standard deviation of 19.8 and a coefficient of variation of 70.7. It also has a plethora of NTBs as well as miscellaneous levies, charges, and taxes. The ECOWAS sub-region has committed to harmonizing the tariff regime to the lowest regime (which is the French-speaking West Africa's UEMOA regime) in the near future. Harmonizing the regime to the UEMOA rates with 4 bands and unweighted average of about 13% can be challenging for a country that depends on tariff revenue for about 12% of government revenue and where there is a growing public 'consensus' among policymakers, journalists and industrialists that the woes of the comatose industrial sector are to be blamed, among other factors, on the 'low tariffs and dumping'. In the year 2002, the protectionist fervor has intensified, and despite commitments to tariff harmonization under ECOWAS or the Standby Agreements with the IMF, the Government has proceeded to raise tariffs on some commodities to 100% and even banned the importation of some (see Box 3.5 below for a summary of the recent developments). Thus, if the current public opinion and official reactions are anything to go by, the trend in Nigeria is surely headed in the opposite direction from the trend in UEMOA, and also Ghana. But what happens in Nigeria would largely determine the overall success or failure of the ECOWAS common external tariff and even the customs union[28].

[28] Nigeria's position in ECOWAS is critical. Nigeria has about 55% of ECOWAS GDP, and about 60% of its population. A deeper trade liberalization within ECOWAS without Nigeria would negatively impact the smaller economies in the sub-region--- precisely the effects obtained in the Southern Africa before South Africa joined in the liberalization.

Box 3.5: Recent Tariff and Trade Policy Developments

Tariff and trade measures approved during 2002 have set back efforts to liberalize the tariff regime with an increase in peak tariffs from 100 to 150 percent, and new import restrictions on poultry, textiles and fabrics, automobiles, refrigeration equipment and procurement of uniforms for either balance of payments reasons or health and safety concerns. Although the simple average tariff has increased to 34 percent, reductions of tariffs on selected raw materials and capital equipment have resulted in a slight reduction of the trade weighted average tariff to seventeen and half percent but also in an increase in effective protection. Tariff liberalization has lagged that reported in regional free trade initiatives particularly with respect to treatment of finished goods.

Summary of Trade and Tariff System
MFN Import Duties

	1995	1998	2000	2001	2002
Customs duties			(in percent)		
Un-weighted average	24.4	26.3	28.6	28.3	34.5
Standard Deviation	…	…	12.5	12.5	22.5
Range	0-150.0	0-150.0	0-100.0	0-100.0	2.5-150.0
Weighted average 1/2/	20	…	18.5	17.6	17.4
Customs duties and change after rebate 3/					
Un-weighted average	17.3	23.5	30.9	30.6	37.2
Weighted average	…	…	20.3	19.4	19.3

1/ Using 4 digit US trade weights
2/ Not including duty concessions
3/ Includes duty rebate phased out in 1999, import surcharge of 7 percent, ECOWAS levy of ½ percent duty rebate phased out in 1999, import surcharge of 7 percent, ECOWAS levy of ½ percent and product specific duties on automobiles and sugar.

The general thrust of policies is to increase tariff protection of manufacturers and food processors, in high-unused domestic capacity and to spur investment through reducing tariffs to the range of 5-15 percent for capital equipment. However, the tariff code is increasingly complex, with over 15 tariff bands, and with over 190 products carrying tariffs of 100 percent or higher there is significant scope for smuggling and corruption in customs administration. The authorities aim to converge with ECOWAS common external tariffs (5-20 percent) by 2007 and are studying the modalities and economic implications of such a strategy.

Source: International Monetary Fund (IMF) Nigeria, Staff Report for the 2002 Article IV Consultation, p. 16

As with other policies and promotional programs of the government, the key problem is that of policy inconsistency and implementation failures. Most of the trade policies are subject to frequent reversals as evident from the annual tariff reviews, and sometimes tariffs on a particular line items are reviewed more than once in a year. Uncertainty about the policies and programs as well as poor institutional capacity to implement announced policies constitute a major impediment to effective customs and trade policy in Nigeria.

3.3.2: Industrial and Export Promotion

Much of the economic policies since independence in 1960 have been devoted to promoting rapid industrialization and exporting. At least in the books, Nigeria has tried dozens of promotional incentives but paradoxically, there seems to be an inverse relationship between the number and dexterity of such incentives and actual performance. What has been missing is a detailed evaluation of the promotional measures (incentive structure) in terms of their value-for-money effectiveness. Below, we summarize a few of the more recent ones (see Box 3.6 below).

3.3.2.a: Investment and Export Incentives

Nigeria has a number of investment and export incentives schemes targeted at easing the tax burden on specific types of investment or business operations.

"Pioneer Status" tax holidays

These are guaranteed by NIPC and administered by the Federal Inland Revenue Service (FIRS). The RPED survey results suggest that an NIPC declaration is not sufficient to obtain pioneer status. Firms noted that the NIPC awards them; that they are granted by the ministry of Industry; and that they are given by the Joint Tax Board located in FIRS.

To affect investment decisions, incentives have to be awarded before an investor makes a commitment. However, it appears they are awarded only after a major commitment, for example, acquisition of land and importation of capital goods, has been made. The criteria are non-transparent and discretionary. The NIPC's Nigeria guide, for example, states that the five-year tax holiday is available to industries that produce products declared as "pioneer products" (for which there is long list) under the Industrial Development (Income Tax Relief) Act No. 22 of 1971 as amended in 1988, or such other deserving enterprises as may be approved by the Council of the NIPC.

Other formal tax incentives

A variety of other tax exemptions and other incentives are listed in the NIPC's Nigeria guide and are contained in the Companies and Allied Matters Act, the Tax Code and other legislation. Federal ones are to be administered by FIRS since all companies file returns whether they have corporate income tax holidays or not. However, only some are included in the tax guide to which FIRS officials refer when assessing tax liability. It is unclear how entitlement to others is judged.

Investors are able to negotiate incentive packages on a case-by-case basis with both federal and state authorities. This confusing and ill-defined array of incentives is compounded by other factors (see RPED Report and Investor Road Map):

- The criteria for awarding incentives are often unclear or inappropriate. For example, incentives for labour-intensive mode of production seems to reward size rather than labour intensity. The award is based on the number of employees and not a measure of labour intensity such as the capital/labour ratio.
- Incentives seem to overlap. A tax incentive cumulative for a firm that is labour intensive, adds local value, uses local raw materials, and has pioneer status.
- The meaning of individual incentives is also unclear in some cases. For example. A two percent tax concession for five years is offered "on the cost of facilities provided for training". However, it is unclear whether this means a reduction in the corporate tax credit, or something else. More generally, it is not clear whether a 15% tax concession means that taxes are reduced by 15%, or whether the tax rate is reduced by 15 percentage points, although there appears some consensus that the later was intended.
- Timing is also problematic. Ex post application for incentives generates greater uncertainty. Pioneer status can only be requested after an investor has made a substantial commitment.
- Responsibility for the administration of incentives is unclear and overly complicated. Although most seem to be administered by either FIRS or the Ministry of Finance, more bodies seem to be involved in awarding them. There may be little coordination between federal and state- level granting bodies.

Nigeria's incentive regime will inevitably confuse and frustrate investors, its targeted clientele. Criticism of the system is not louder, possibly because most investors do not bother applying for them or pursue a "negotiated" incentive route instead. The findings of the FIAS team corroborate the results of the RPED survey where few firms actually benefited from incentives, and expressed the opinion that it was not worth spending the time applying for them.

Box 3.6: Industrial Policy Incentives to Firms

The following policies were put in place to boost the industrial sector of the economy. They are grouped under fiscal measures on taxation and interest rates, effective protection with import tariff, export promotion of Nigerian products, foreign currency facility for international trade and banking development.

Taxation

- Fiscal measures targeted at aspects of industrial activities will be realized through pioneer status which involve local raw materials development, local value added, labour intensive processes, export-oriented activities, in-plant training and investment in economically disadvantaged areas.
- Tax relief for research and development
- Companies Income Tax Act amendment (corporate tax 30%, penalty for failure to pay on due date 10%, etc.
- Tax Free Dividends
- Tax relieve for investments in economically disadvantaged LGAs
- Rural Investment Allowance
- Replacement of Industrial Plant and Machinery
- Solid minerals exploitation and processing
- Tax incentives for Hoteliers and other services related to tourism
- Tax exemption for Dividends of unit trust
- Tax incentives for local production of parts machinery and equipment
- Double Taxation (Income Tax Act 1979)
- Group of companies taxation
- Taxation in respect of oil and gas extended to industrial projects
- Capital Tax gains from disposal of shares and stocks are exempt from Tax
- Abolition of excise duties

Effective protection

- Customs and excise regime
- Dumped and subsidized goods

Export Promotion

- Import duty Drawback
- Export license Waiver
- Export credit Guarantee and Insurance scheme
- Export development fund
- Export expansion grant (EEG)
- Export adjustment Scheme Grant
- Rediscount of short-term Bills for Export
- Capital Allowance
- Tax relief on interest Income

Foreign Currency Facility

- Foreign exchange market
- Repatriation of imported capital
- Repayment of technology fees
- Foreign currency domiciliary account

Development Banking

- Soft loan provision
- Advances to large, medium and small and cottage type industries on concessionary terms

Source: Industrial Policy For Nigeria. Federal Ministry of Industry Abuja, 2001

Since 1999, the civilian government has stepped up measures to promote industrialization. Beside the drafting of a new industrial policy—with the gamut of incentives as summarized above in Box 3.6, Government has also embarked on two new bold, albeit controversial, initiatives to boost industrialization--- the setting up of the new Bank for Industry, and the Small and Medium Industries Equity Investment Scheme (SMIEIS).

The bank was introduced as a development institution to accelerate Nigeria 's industrial development through the provisions of term loans, equity finances and technical assistance to industrial enterprises. It is a combination of the Nigerian Industrial development Bank and Nigerian bank for Commerce and Industry (NBCI). The orientation has been developmental in nature to make a considerable impact in terms of long-term (sanctions and disbursement), employment generation, industrial dispersal and promotion of indigenous entrepreneurship. It inherited under its fold the Industrial and insurance Brokers (IDIB), Leasing Company of Nigeria Limited (LECON), NIDB Consultancy Limited and NIDB Trustees Limited, which belong to the old NIDB. The Nigerian Bank for commerce and Industry another bank which it inherited was established in 1973 with an authorized share capital of N200 million while its capitalization was expected to be N600 million at the conclusion of the re-structuring in 1999 to enhance its delivery capacity. The bank was established to provide financial, technical and management support services to Small and medium scale industries.

The SMIEIS Fund, to which commercial and merchant banks are expected to contribute 10 percent of their profits is another scheme directed at promoting the SMEs. The key features of the scheme are summarized in Box 3.7 below.

The major pressure point about these measures pertains to the non-market features and hence the susceptibility to failures as with the earlier directed credit schemes. Given the pervasive corruption and the weak institutional foundations, many analysts fear that the funds might end up as another pieces of 'national cake' to be eaten up by corruption. The funds are unlikely to get to the intended beneficiaries, and the loans might end up as bad and doubtful debts—which would cripple the operations of the funds in the future.

Box 3.7: Small and Medium Industries Equity Investment Scheme (SMIEIS)

The Small and Medium Industrial Development Agency (SMIDA) is set up to help in the coordination of the scheme.

The objectives envisaged for SMIEIS

- Increasing per capita output/income and initiating/constituting changes in the structure of business and the society through growth, increased output and employment opportunities.
- Enhancement of Regional economic balance through industrial dispersal
- Moderating rural urban migration
- Easily adaptable to local technology
- Promotion of effective resource utilization

Incentive Structure for SMIEIS in Nigeria

- Tax relief in the first five years of operation (company's income tax policy of 1990)
- Lower duties on imported raw materials by small and medium scale businesses

- Review of the seven-year tariff regime (1995-2001) in consonance with economic realities and the desire to build a stronger and more viable real sector
- Tariff on industrial machinery and spare parts have been reviewed downwards to as low as2.5percnt
- Duty on imported finished goods have been substantially increased to discourage dumping in Nigeria

Guidelines for the SMIEIS fund

60 percent should go to core real sector, 30 percent to services, and 10 percent to micro enterprises through NGOs.

Performance of SMIEIS so far in Nigeria

- 1.73 billion so far was invested in 36 projects by 36 banks
- The amount represents only 14 percent of the total sum
- A total of 12.37 billion has been set aside by 79banks
- Lagos has over 90 percent of the projects while there is one each in Cross River, Anambra, Delta and Oyo States respectively
- 75 percent of the total investment is in the service sector alone.

Problems of SMEs faced by the SMIEIS Fund

- **Poor Management**
- Poor Internal Control System
- Improper Keeping of Financial Records
- Lack of Technical And Economic Counseling
- High Rate of Business Failure
- Weak Working Capital Base
- Non Disclosure of Information
- Susceptibility to Sudden Policy Changes
- Poor Accounting Standards (Improper Records of Business Transactions)
- Limits Accessibility To Institutional Credit
- Shortage of Skilled Manpower and

Inadequate financial resources to hire skilled manpower, which has restrained the expansion and limits productivity. Others include financial indiscipline, loan diversion, aversion to disclosure of information on supply sources, production processes, production costs (information opacity).

Sources: Federal Ministry of Industry, Abuja: Draft Industrial Policy for Nigeria; Ohuche, 2003; ThisDay Newspaper, Jan.8th, 2003; and ThisDay Newspaper, 4th Sept. 2002.

3.3.3: Agricultural Promotion[29]

Since the first National Development Plan (1962- 8), agricultural development has been a central concern of policy in Nigeria (see Box 3.8 for some of the specific programs). Despite these policies and programs, agricultural sector is still dominated by peasant agriculture, rain-fed, and there is increasing food shortages in the country leading to massive food imports. Nigeria has also been losing market shares even in the export of its traditional products--- cocoa, palm produce,

[29] See the complementary study focusing on Agricultural sector assessment. We do not therefore try to duplicate the assessment here.

groundnuts, timber, etc. The verdict therefore is that the agricultural promotion measures have not worked well.

More recently, the Obasanjo Government has reviewed the past agricultural policies and drafted a new one with the goal of remedying the failures of previous promotional measures. The Obasanjo Administration has, after a close review of strategies and instruments previously adopted in the implementation of agricultural policy objectives, evolved new strategies for laying a solid foundation for sustained increase in agricultural productivity and for enhancing output necessary for growth. The goals of the draft new policy are:

- Creating the conducive macro-environment to stimulate greater private sector investment in agriculture so that the private sector can assume its appropriate role as the lead and main actor in agriculture;
- Rationalizing the roles of the tiers of government in their promotional and supportive activities to stimulate growth
- Reorganizing the institutional framework for government intervention in the sector to facilitate smooth and integrated development of agricultural potentials;
- Articulating and implementing integrated rural development as a priority national programme to raise the quality of life of the rural people;
- Increasing agricultural production through increased budgetary allocation and promotion of the necessary developmental, supportive and service –oriented activities to enhance production and productivity and marketing opportunities;
- Increasing fiscal incentives to agriculture, among other sectors, and reviewing import waiver anomalies with appropriate tariffication of agricultural imports;
- Promoting increased use of agricultural machinery and inputs through favorable tariff policy.

From the experiences of the past and developments in agriculture in the rest of the world, new initiatives are being formulated to shore up the sector. The most recent efforts in this direction are the Land Resources Policy which will guide sustainable use of agricultural lands, National Agricultural Mechanization policy, National Cooperative Development policy, and the national Seed Policy which assigns primary responsibility for commercial seed supply to the private sector while government shall be responsible for foundation and breeder seed development, seed certification and quality control and certification while providing the enabling environment for the seed industry development. The National Policy on Integrated Rural Development will integrate the rural economy into the mainstream of national development process to ensure its effective coordination and management and make the rural areas more in tune with the urban areas so as to moderate the rural –urban drift, redress the past neglect through provision of critical rural infrastructure and empowerment of the rural population to create wealth and eradicate rural poverty. These were a prelude to the general review of the entire body of the national agricultural and rural development policy.

Several institutions have been designed to achieve the objectives of agricultural and rural transformation. These include the relocation of the Department of Cooperatives of the Ministry of Labor and its merger with the Agricultural Cooperatives Division of the Ministry of agriculture, the transfer of the Department of rural Development from the Ministry of Water Resources to the Ministry of Agriculture; the scrapping of the erstwhile National Agricultural Land Development

Authority (NALDA) and, the merging of its functions with the Rural Development Department; scrapping of the Federal Agricultural Coordinating Unit (FACU) and the agricultural Projects Monitoring an Evaluation Unit (APMEU) and the setting up of projects Coordinating Unit (PCU) and the streamlining of institutions for agricultural credit delivery with the emergence of the Nigerian Agricultural and Cooperative and Rural Development Bank (NACRDB) from the erstwhile Nigerian Agricultural and Cooperative Bank (NACB) and the peoples Bank and the assets of the Family Economic Advancement Programme (FEAP). New institutions are also evolving to enable the Nigerian agricultural sector respond to the imperatives of the emerging global economic order.

3.3.3.b: Constraints to achievement of policy objectives

Agricultural policy, like many other sectoral policies in Nigeria, is hamstrung by several constraints—including implementation failures. These need to be tackled, and they include:

- Unconducive enabling environment where macro-economic policies and the agricultural policy are in disharmony thus resulting in escalating costs of production and reduced purchasing power of farmers
- Inconsistency and instability in macro-economic policies, which do not engender confidence in the economy and tend to discourage medium and long-term investments in agriculture
- Poor harnessing and conservation of natural resources especially land, fisheries and water resources.
- Poor state of rural infrastructure, which makes the rural environment unattractive to the younger generation.
- Poor funding of agricultural developmental activities
- Lack of appropriate technology to reduce the drudgery in agricultural production and processing activities
- Inadequate availability of inputs especially improved seeds, seedlings, brood stock, fingerlings, etc, credit, fertilizer, agro chemicals and farm machinery
- Poor targeting of beneficiaries resulting in the capture of government production incentives by unintended beneficiaries
- Weak agricultural extension delivery service resulting in ineffective dissemination of modern farming technologies and poor feedback mechanism for research to respond to farmers needs
- Low capacity of the organized farmer groups in service delivery
- Ineffective control of pests and diseases
- Inadequate database for policy formulation, monitoring and evaluation as well as impact assessment

Available literature on the review of the Nigeria’s agricultural policies indicate that they have suffered from implementation failures, which are traceable to one or a combination of the following factors:

i) poor translation and articulation of policy prescription into implementable programmes
ii) poor targeting of programmes and projects
iii) poor budgeting
iv) inadequate attention to monitoring, evaluation and impact assessment parameters in project designs

v) Lack of involvement of beneficiaries in programme design, monitoring and evaluation and implementation arising from the under-rating of the knowledge, ability, capability and sensitivity of the small scale farmers.

vi) Neglect of gender considerations in programme implementation

vii) Poor managerial capability

viii) Lag between project costs and budgetary provision resulting in sub-optimal allocation

ix) Untimely release of usually inadequate funds

x) Inadequate attention to project gestation period

xi) Use of political/social consideration rather than technical/economic viability criteria in programme choice and location

xii) Contract syndrome in determining projects to be executed rather than the identified need of would-be beneficiaries leading to procurement of non-priority goods and provision of unutilizable or unpatronised facilities

xiii) Abandonment of projects mid-stream for political reasons

xiv) Downturn in the national economy affecting availability of financial resources for funding promontory activities of government such as support to extension service, subsidy on input especially fertilizer, land development and agricultural machinery and operation of buyer-of-last-resort mechanism.

xv) Absence of genuine and sustained investment of private commercial producers in agricultural production

xvi) Increase in production largely through expansion of land under cultivation rather than increase in productivity of land using improved technology.

Box 3.8: Government Agricultural Promotion Measures

The first Nigerian National Development Plan was drawn in 1962-1968. The development plan had among its several objectives, the introduction of better and modern agricultural methods through the activities of farm settlements, co-operative (nucleus) plantations, supply of improved farm implements (e.g. hydraulic hand presses for oil palm processing), a greatly expanded agricultural extension service etc. Some of the specialized development schemes initiated or implemented during this period included:

- Farm Settlement Schemes
- National Accelerated Food Production Programme (NAFPP), which was launched in 1972.
- Operation feed the Nation, which came to limelight in 1976.
- The World Bank-funded Agricultural Development Projects (ADP) established in 1975.
- The River Basin Development found in 1976 to aid in undertaking the surface and ground water resources development for various purposes. This include irrigation provision, water shed management, etc.

The above programmes were all aimed at improving food production, except the Agricultural Development Programme (ADP), which brought to limelight the major practical demonstration of the integrated approach to agricultural development in Nigeria. It also provided for decentralized opportunities/resources to small farmers. Other Agricultural Development Intervention Programmes include:

- Agricultural Credit and Guarantee Scheme Fund (ACGSF) set up in 1978 to help in facilitating most agricultural credits from banks to the farmers.
- Directorate For Food Roads and Rural Infrastructure (DFFRI) in 1986, which served as the coordinating, body for all rural development projects.
- Nigerian Agricultural Insurance Cooperation found in 1987 to provide insurance cover for all agricultural business production.
- Strategic Grain Reserve (SGR) in 1988 to act as the food house or storehouse of excess grains produced during the time of plenty and made it available during scarcity.
- Peoples Bank of Nigeria (PBN) found in 1989 and was latter absorbed by the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) in 2000. The main aims of the former were to provide micro credits at the barest minimum interest rate and to encourage micro enterprises.
- National Agricultural Land Development Authority (NALDA) which was found in 1992 for the provision of strategic support for land development and the promotion of rural land resources amongst other functions.

Other Programmes include:

- The Artisanal Fishery and Small Ruminant Production Scheme.

Pasture and Grazing Reserves.

4: Human Development, Employment, and Poverty

Ultimately, the economy is about people and resources. It is difficult to understand the economy and its productivity without a better understanding of the human development indicators--- human capital resources, poverty and inequality, gender issues, employment, and factors likely to hamper productivity such as the HIV/AIDS pandemic and exclusion/ suppression of productive groups such as women. In parts II and III of this Report, we focused essentially on the macro and mico aspects of the economy respectively. A key lesson from the UNDP's Human Development Reports--- focusing on human development indicators (HDI) is the need to complement the strict economistic approach with a human development approach in economic analysis and programming. In every society, human capacity is closely related to the sustainability of the economic outcomes. Particularly for a country such as Nigeria with a high degree of spatial and gender inequality--- leading to the exclusion of large segments of the potential productive resources---, its underdevelopment relative to its potentials cannot be fully explained by 'macroeconomic fundamentals' alone. The human development is the other side of the coin.

This part of the Report assesses the human development balance sheet, employment and poverty based on three clusters of issues in accordance with the UNDP's classifications--- human development index (HDI)—including life expectancy, education and employment; gender related development index (GDI) and gender empowerment index (GEM); and income poverty and inequality[30]. We also examine some of the coping mechanisms of poor households as well as the responses to poverty by the government.

4.1: Human development Index (HDI)

Generally, HDI measures achievements in basic human progress and improvement in the quality of life, especially with respect to life expectancy, education and gainful employment. We assess Nigeria's balance sheet in these two areas. It needs to be stressed that the human development of a society is also related to its demographic structure—in a bi-directional manner, with lopsided demographic structure negatively affecting the quality of human development and this in turn could reinforce the demographic features (see Box 4.1 for a summary of the demographic structure and Appendix table 14 for some selected social and demographic indicators in comparative perspectives).

4.1.1: Life expectancy:

Life expectancy at birth depends on a variety of factors, including the following demographics:

- (i) Infant, Under-five and maternal mortalities
- (ii) Nutrition – per capita supply of protein and fat
- (iii) Access of potable water and sanitation
- (iv) Access to public health services
- (v) Attention to HIV/AIDS curative and preventive services

[30] This aspect draws extensively from UNDP's Human Development Report on Nigeria (2000/01).

Box 4. 1: Nigeria's Major Demographic Characteristics

The 1991 Population Census puts the Nigerian population as 88.99 million, divided more or less evenly between the two sexes with the male population having an edge [50.04 percent] over the female population [49.96 percent]. It has been assumed that the population has since then been increasing at the annual rate of 2.80. Although this rate is projected to fall over the years, the expectations are that the growth rate will not fall below 2.00 percent per annum until around 2020.

According to the World Bank's **World Development Report 2000/2001**, Nigeria's millennium population was about 124 million in 1999. The global Development Report 2000 put the country's population at 115.00 million in 1998. This gives Nigeria an average population of roughly about 120 million at the dawn of the third millennium; i.e about 20 percent of the population of sub-Sahara Africa [between 569 and 642 million] and 2.0 percent of the world population [5.975 billion]. The major demographic features of Nigeria are:

- An average density of 96 persons per square kilometer [1991] with Lagos, Anambra, Imo and Akwa-Ibom being relatively densely populated and with only 36.3 percent living in urban centers [1991]. The most urbanized states are Lagos, Oyo and Anambra while the least urbanized states are Jigawa, Taraba, Akwa-Ibom, Kebbi and Sokoto.
- A young population with median age of 17.41 years, with a dependency ratio of 93.2 and an economic dependency ratio of 259 per 100 workers.
- About 28 percent of the population are between the ages of 5 and 14 years [primary] and junior secondary school age] while 11 percent are between the ages of 15-24 years [the age range for senior secondary school, technical institutes, trade centers and universities].
- 93 percent of Nigerians live in and are members of households [1991 Census]. The household is the primary unit of consumption, income maintenance, saving, economic dependency, social welfare and adjustment as well as for child rearing and socialization.
- The institution of marriage is quite universal among both the male and female population. Only 3.3 percent of the population within 45-49 years age range remained unmarried [4.1 percent and 2.2 percent among the male and female population respectively]. Divorce and separation are also very low [about 2.0 percent in each case]. Marriages are remarkably high – 64 percent of the female marry 10 and 18 years of age and 21 percent of the men do likewise at the same age.

Source: UNDP, 2000/01.

Table 4.1 below summarizes the status of some of the major factors that impact on life expectancy and human development in Nigeria. By international standards and by the standards even in most Sub-Saharan African countries, Nigeria is very poorly equipped to develop its human capacities.

Table 4.1: Summary Health Indicators for Nigeria

Health Indicators	**Nigeria**
Adequate sanitation facilities (%)	44
Improved water sources (%)	50
Physicians per 10,000	19
Oral Dehydration Therapy use (%)	32

Access to essential drugs (%)	10
Health expenditure as % of GDP	1.7
Life Expectancy (years)	52
HIV/AIDS children under 5 years (%)	30
Fully immunized children (%)	17
Never received vaccination (children) (%)	40
Infant mortality (per 1000 live births)	77
Maternal Mortality (per 100,000 live births)	1000

Source: Federal Republic of Nigeria (2002), "Strategy To Eradicate Poverty in Nigeria (An Interim Paper on Policy Directions)"

4.1.1.a: Mortality rates: infant & under – 5 mortality

Nigeria's very high mortality record is illustrated in tables 4.2. This table deals with the three types of mortality, which individually and collectively affect human survival. As Table 4.2 shows, between 1960 and 1970 infant mortality was reduced by 36.5 percent and for three decades thereafter it went down by only 6.7 percent. Reduction in Under-Five mortality rate has even been much slower. It went down by less than 3.0 percent between 1960 and 1970 and by an average of 2.3 percent per decade between 1970 and 2000. Maternal mortality, except when it went down by 25 percent during the 1980s and quickly climbed up to its 1960s level, has remained constant during the past four decades from 42.7 to 50.1 years. The result is that Nigeria's life expectancy has increased only by 17 percent during these four decades. This puts Nigeria among the 19 countries in the world with the lowest life expectancy.

Table 4.2: Trends in Nigeria's three mortalities

	1960	**1970**	**1980**	**1990**	**2000**
Infant mortality rate (per 1000 live birth)	189	120	116	116	112
Under –5 mortality rate (per 1000 live birth)	207	201	196	191(167)	187
Maternal mortality rate (100,000 live birth)	1000	1000	750	1000	1000
Life expectancy (years)	42.7	43.5	47	51.95	50.1

Source: UNDP Human Development Report 2000; World Bank, World Development Indicators 1999

It should be pointed out that Under – 5 mortality rate [U5MR] is, according to UNICEF, the principal indicator measuring human progress. It means an end result of the development process rather than an input because it is the result of a wide variety of inputs on nutritional health and the health of mothers. These include the level of immunization and oral rehydration therapy [ORT], availability of maternal and child health services [including parental care], income and food availability in the family, and the availability of clean water and safe sanitation. U5MR presents a more accurate picture of the health status of the majority of children and of society as a whole. This is the reason why UNICEF has chosen U5MR as its single most important indicator of the state of a nation's children. That Nigeria, in descending order ranks as 15th out of a total of 187 countries is a demonstration of how appallingly low the state of Nigeria's children is. It shows what a horrendous challenge faces the country. The top five child killers of Under-5 are parental conditions, respiratory infections, diarrhea diseases, vaccine preventable diseases and malaria.

4.1.1.b: Nutrition

Nigeria suffers widespread malnutrition. The daily average per capita supplies of calories is above the nutrition poverty line of 2100 calories [see table 4.3 below). However, like all averages it conceals quite a lot, especially in terms of household food security. Indeed, the high percentage (70 percent) of severe and moderate under-weight Under-5 infants as well as the 62 percent of wasting and stunting children not only account for the high infant mortality rate and for putting Nigeria down as low as the fifteenth poorest country in U5MR but also is a sad reflection of the acute state of food insecurity. The national average also fails to reveal the considerable gender, regional-state, and rural-urban differences that exist.

Table 4.3: Nigeria: Nutrition- daily per capita supply of calories, protein and fat

	1970	**2000**
Daily per capita supplies of calories requirement	2254	2609
Daily per capita supply of protein (grains)	49.0	56.3
Fat (grams)	49.7	66.3
Cereal yield kilograms per hectare	1269 (1979-81)	1191 (1997-2000)
Food production index 1989-91=100	57 (1979-81)	134.2 (1997-2000)

Source: World Development Report 2000 and UNICEF World's Children 2001

Added to the malnutrition problem is the fact that Nigeria is increasingly unable to feed itself—heightening the problem of food insecurity. This is partly because of low growth rates in annual production and partly also because of inadequate and unsuccessful solution of issues related to efficient storage, processing and marketing with the result that substantial proportions of food crops harvested are lost. Post-harvest food losses are estimated to amount to about 20 to 25 percent of total output. Nigeria, which used to be self-sufficient in food production, has now become a net importer of food. Food imports have averaged 10 percent of total imports during the decade of the 1990s (see table 4.4). Food processes have increased considerably in recent months to the extent that staples are getting beyond the reach of an increasing proportion of the population. The growth rate of the production of the country's staples– yam, cassava, maize, rice, sorghum, millet and beans – has not been strong. This is quite a major challenge especially given the high population growth rate of 2.8 percent.

Table 4.4: Nigeria: Food Imports as percentages of Total Import

1989	1990	1991	1992	1993	1998	1999
7.06	8.13	8.05	8.83	9.2	15.06	14.38

Source: Federal Office of Statistics

4.1.1.c: Access to public health services

The percentage of the population, which has no access to potable water, sanitation, public health services, and essential drugs, is well below the developing country averages and even Sub-Saharan Africa's averages (again see table 4.1 above).

A time bomb waiting to explode, with all the consequences for productivity, is the HIV/AIDS pandemic. Table 4.5 illustrates the prevalence rate

Table 4.5: **HIV Prevalence in Nigeria's six Zones**

Zonal/Region	**HIV Prevalence rate**
South East	5.2
South West	3.5
South-South	3.2
North East	4.5
North Central	7.0
North West	5.2

Source: Federal ministry of Health, 1999 HIV/SYPHILIS Sentinel Zero-Prevalence Survey in Nigeria. Technical Report (November 1999)

In Nigeria, the first serious attempt to monitor the HIV/AIDS epidemic began in 1991 when the Federal Ministry of Health established the HIV sentinel surveillance. Subsequent surveys took place in 1993, 1995 and 1999. Based on the results of these surveys, the HIV prevalence was 1.8 percent in 1991; 3.8 percent in 1993; 4.5 percent in 1998 and 5.4 percent in 1999. Using the results of the 1999 survey, this means that 2.6 million adult Nigerians aged 15-49 years are HIV infected. It is projected that by 2003, 4.9 million Nigerian adults will have the AIDS virus.

Two characteristics of HIV prevalence in Nigeria are worth pointing out. The low rate of national increase is masking the explosive rate of increase in certain areas in the country. For example, in Benue State, the mean HIV prevalence increased from 2.3 percent in 1995 to 16.8 percent in 1999 – more than 700 percent increase. Secondly, the young adult population aged 15-24 years is the worst affected age group in some zones. As infected people develop the full-blown AIDS, the impact of HIV/AIDS on families, communities and, indeed, the whole country will be enormous. Life expectancy will continue to be reduced – it had peaked to 54 years in the early 1980s but fell to 47.6 years in 1995. Although it has since risen to 50.1 years, it is still below its 1990 level. About one-third of the population is not expected to live up to 40 years of age. The country will inevitably sustain severe economic loss as well as increase burden of medical care and of AIDS-orphaned children.

4.1.2: Human Capital (Education):

The level of Nigeria's human capital is quite low by international standards. For example, in 1960, Nigeria provided an average of one half-year of education per student compared to an average of 6.6 years for a sample of 77 low and middle-income countries.[31] By 1999, the Nigerian average was only 3.6 years compared to the LDC average of 10.8 years. While Nigeria has made fairly consistent progress in raising educational attainment, 76 countries out of a sample of 103 nations performed better. However, the long-run rate of increase for human capital, 3.5 percent per annum, was higher than the rate of labor force growth because average educational attainment has grown by 4.8 percent per annum. Evidently, raising average educational attainment in Nigeria has strong potential to raise per-capita growth in the short-run and raise the long-run level of income per-capita.

[31] Nigerian estimates are based on demographic and enrollment data.

High enrolments in schools and qualitative education are central to rapid growth of human capital. The Universal Primary Education (UPE) was introduced in Nigeria nearly 25 years ago. Despite this, not all eligible children have been enrolled in schools and an increasing number of those enrolled drop out of school before completing their primary education. Indeed, it is estimated that the percentage of school dropouts is as high as between 15 and 20 percent. The cumulative effect of this is that the illiterate population is still very high. Only 55 percent of the population is literate in spite of the establishment of the National Commission for Mass Literacy and Non-formal Education since 1990. Consequently, the launching of the universal basic education (UBE) is a welcome. The programme envisages a 'compulsory' 9-year education for every child, up to the junior secondary school. The quality of the tertiary education is deteriorating as Government is unable to adequately fund the myriad of higher institutions, especially with the Government insistence on 'tuition-free' university system. With the universities severely underfunded, standards are falling and the system is characterized by frequent strikes by university teachers protesting the poor conditions of the universities. For example, in the last ten years, the universities were on strike for about three and a half years. If this problem is not solved, future supply of high quality labour force will be severely impaired.

4.1.3: Labor Markets, Employment, and Unemployment

> "We need some level of social and political stability if we are to pursue the goal of economic transformation… Unemployment, therefore, must be declared <u>'National Enemy Number One'</u> and should be attacked ferociously"
> (President, Manufacturers' Association of Nigeria, 2001, p.3)

Nigeria has a large and vibrant labour market. The sheer size of Nigeria's labor force (66 million people between ages 15 and 64 in 2000) is an asset because it represents a large pool of talent to draw upon as well as a large internal market. Its growth rate of 2.9 percent per annum has been fairly constant.

A key feature of the labour market is segmentation of all sorts--- formal versus informal, urban versus rural, government versus private sector, and asymmetries in terms of relatively important sectors such as the oil sector employing less than 1 percent of the labour force. Government at all levels and public parastatals employ more than 50 percent of the formal employment, while the private sector/informal employment is dominated by agriculture.

Unionization is a key characteristic of the labour market—with the umbrella national union—the Nigerian Labour Congress (NLC) being a very powerful instrument for collective wage bargaining for the labour force. Much of the wage negotiations are with the Federal Government, but in the end, other tiers of government--- states and local governments are pressured to adopt the 'uniform' wage structure. Indeed, several private sector operators strive to latch on to the public sector wage structure. With the last public sector wage hike in 2000, a survey of the manufacturing sector in Nigeria indicated that on the average, public sector employees earn more than private sector workers--- except perhaps for a few sectors such as the banking and oil sectors. However, the wage hikes were designed to reverse the declining real wages of workers which as at 1993 were only 35 percent of the 1987 level in real terms.

The public sector employment faces many challenges and threats. There is so much concern that the civil service is highly overbloated, with the consequence that most governments spend a disproportionate amount of their budget on salaries and other overhead expenses. There is therefore the pressure to downsize the bureaucracy for sustainable fiscal position. But the fundamental question is where would the retrenched people find jobs since the private sector is stagnant or even shrinking.

Data on the state of unemployment is highly unreliable in Nigeria. Official sources (Federal Office of Statistics) put the unemployment rate at between 3-6 percent. Independent estimates variously put the number at 20—40 percent. Even the size of the labour force is contentious—ranging between 35—66 million (see table 4.6 below). Whatever the facts are in terms of the rate of unemployment or the size of the labour force, anecdotal evidence relating to the dependency ratio, high rate of violent crimes, and number of applicants responding to job advertisements, it is evident that unemployment and underemployment constitute a key national crisis.

Table 4.6: Percentage Distribution of Employed persons (15-59 years.) by Industry 1995-1999 (in millions)

	1995		1996		1997					
	Number	**% Of Total**	**Number**	**% Of Total**	**Number**	**% Of Total**	**Number**	**% Of Total**	**Number**	**% Of Total**
Agriculture	11.27	38.2	11.63	38.5	11.58	37.5	11.8	37.4	11.82	36.7
Mining	0.58	1.3	0.42	1.4	0.32	1.02	0.30	1.04	0.35	1.1
Manufacturing	3.31	11.2	3.47	11.5	3.41	11.04	3.39	10.76	3.44	10.7
Utility	0.79	2.7	0.70	2.4	0.72	2.34	0.70	2.2	0.77	2.4
Construction	2.04	6.9	1.10	3.7	1.39	4.5	1.66	3.7	1.09	3.4
Trade	5.64	19.1	6.22	20.6	6.76	21.9	7.40	23.6	7.57	23.5
Transport	1.80	2.8	1.17	3.9	0.77	2.5	10.80	2.5	0.74	2.3
Finance	0.79	2.7	1.08	3.6	1.08	3.2	1.07	3.4	1.13	3.5
Service	4.16	14.1	4.35	14.4	4.85	15.7	4.85	15.4	5.28	16.4
Total	29.51	100	30.2	100	30.9	100	31.52	100	32.22	100

Source: NISER Review of Nigerian Development 2000, p. 67

In the private sector, whether formal or informal, there is stagnation in employment. Expectedly, employment in the formal private sector is concentrated among the large firms. The 2001 RPED survey showed that large and very large firms contributed over 70% of total employment. The very small and small firms employing less than 20 persons employed about 9 percent of the total. Between 1990 and 2000, a number of the large firms laid off workers owing to tightening business environment. The high proportional gains made by the small firms could not offset the losses of the large ones such that overall, close to 9% of the workforce were laid off and there was a decrease in the employment in the formal private sector between 1990 and 2000. Assuming the labor market is growing at the same rate with population, it means over the same decade, there was an aggregate rise of about 28% in the labor force that could not get employment in the formal sector - and this is added to the 9% laid off. In the table below, we present the employment changes in the firms over the decade.

Fig. 4.1: Sectoral Employment in 2000

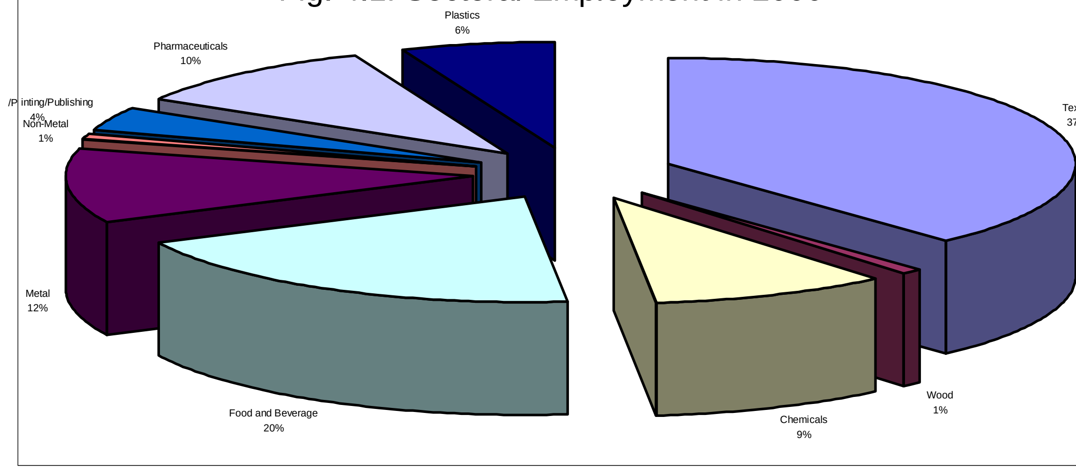


Table 4.7: Changes in Total employment over structural adjustment, by initial firm size (1990)

	1990	2000	Employment Change	% Change in Employment
Very Small	878	2181	1303	148.4
Small	1451	2304	853	58.8
Medium	3772	4236	464	12.3
Large	7796	6787	-1009	-12.9
Very Large	43217	36623	-6594	-15.3
Total	57114	52131	-4983	-8.7

Source: RPED, 2001

Agriculture employs the dominant proportion of the country's labour force either directly or indirectly. The bulk of this is concentrated in the informal sector. Services sub sector is also growing both in importance and the size of employment. The oil industry, though a major contributor to foreign exchange earnings, employs less than 1% of the labour force. Taken by sectors, the food sub-sector is currently the most vibrant among the sectors, and more so in terms of growth of employment. This may be partly due to the heavy reliance on local sources of raw materials and thus not susceptible to the gyrations of the trade and exchange rate policies. However, the textile sub sector is the largest employer in the manufacturing sector. In recent years, tens of thousands of persons have been laid off following the inability of the sector to be competitive.

4.2: Poverty and Inequality

Poverty in the midst of plenty: The challenge of growth with inclusion is the title of a Report on Nigeria by the World Bank (1996) and the title aptly captures the current challenge facing Nigeria today. Indeed, if there is one keyword that sums up the state of Nigerian economy, it is self-inflicted poverty[32]. Nigeria has no business being one of the poorest 20 countries in the world in terms of per capita income levels—if it had managed its resources well.

4.2.1: Nature, Dimensions, and Causes of Poverty

Household poverty assessment surveys were carried out in 1980, 1985, 1992, and 1996, and recent projections have also been made based on the trend (see table 4.8 below; Appendix table 14 for some selected social and demographic indicators in comparative perspectives; and also Appendix table 15 for geographical distribution of poverty incidence). The summary information is that poverty in Nigeria is deep, severe, and pervasive, with the threat of becoming dynastic to the extent that children of the poor are also tending to become poor. Relative to other African countries, Nigeria's poverty situation has been worsening while it is reducing in many others (see Figure below). Indeed, according to the UNDP's Human Poverty Index (HPI), Nigeria's score was 0.416 in 2000, ranking it as the 54th among 78 poorest countries, and obviously the poorest OPEC member country[33].

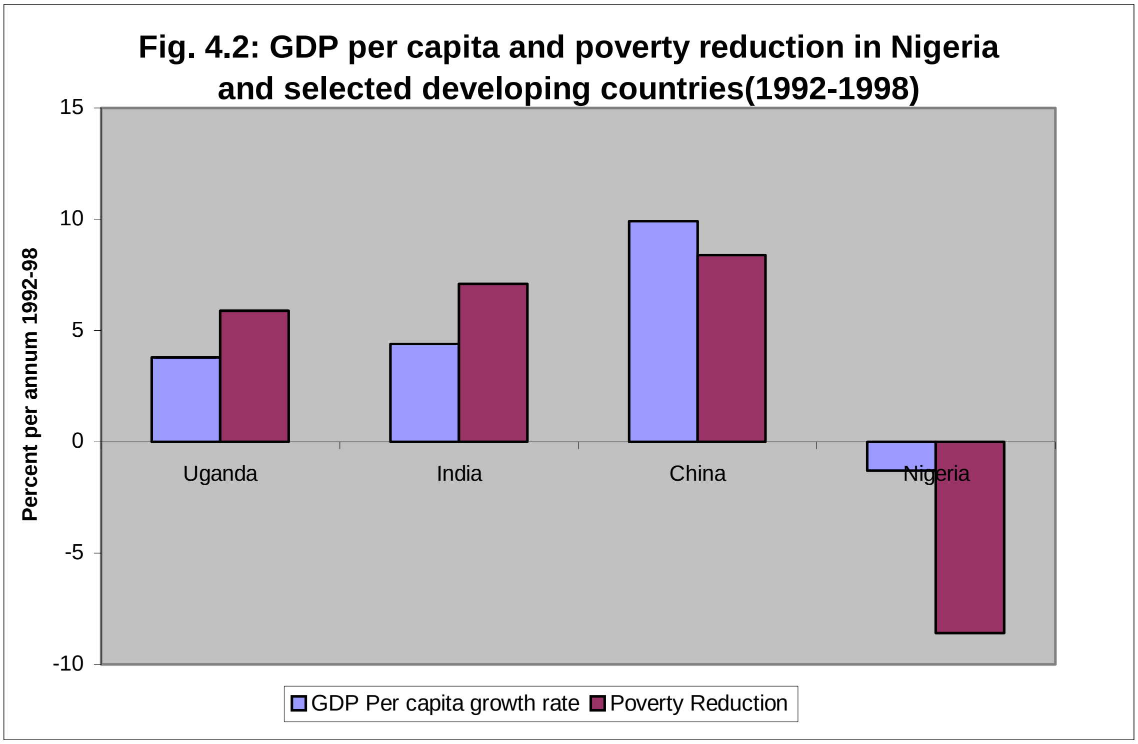
Table 4.8: Poverty Trends in Nigeria (% of population in deep poverty)

1980	1985	1992	1996	2001
26	46	43	65	70

Source: FOS Estimates

[32] Issues pertaining to poverty analysis in Nigeria adorn much of Nigeria's development literature and are subjects of books and Reports. See for example: Chapter 2 of World Bank 1996; Voice of the Poor from Many Lands 2002; Nigeria's 2000 Background paper for the CG meeting; the PRSP and NAPEP documents; various poverty survey results on Nigeria; the UNDP's Human Development Reports; etc.

[33] The HPI measures deprivations in the basic dimensions of human development – i.e. deprivations in education and knowledge in economic provisioning, lack of access to potable water, lack of access to public health services and percentage of under-weight children's population plus percentage of population not expected to survive to 40 years of age.



The aggregate poverty figures mask the huge spatial disparities--- rural versus urban, and regional. Poverty is more concentrated in the rural than in the urban areas, although in recent years, urban poverty has equally shot up significantly. Among the rural poor, women dominate the group.

There is also significant regional differences--- especially in terms of broad categories of North and South, but more specifically among the states. Appendix 15 presents the poverty profile by states. One striking feature of the table is the almost unbelievable hiking in poverty levels in all states. Even Anambra state with the lowest poverty incidence in 1992 (32%) experienced a significant increase in poverty in 1996. Despite the overall worsening of poverty situation in every state, an examination of the results for 1992 and 1996 shows that poverty is relatively more concentrated in the Northern parts of Nigeria. For example, in the 1992 survey, all the six states with poverty levels above 50 percent are in the North. In 1996, only 4 out of 23 states with poverty levels over 60 percent are in the South, and the remaining 19 states (83%) are in the North. Indeed, all the five states where poverty is severest and poverty incidence over 80 percent are Northern states---Bauchi, Gombe, Kebbi, Sokoto, and Zamfara. It is striking that this trend in the concentration of the extreme poor in the Northern part of Nigeria was also observed since the 1980s. For example, the World Bank (1996: 36) sums up the regional disparity in poverty during the period 1985-1992 as follows: "While the north (Northeast and Northwest) had already half of all the poor, and nearly half of all those living in extreme poverty, it had only just over one third of the total population. On the other hand, the south had nearly one half of the population, but only one-third of the poor are extreme poor. The states with the highest percentage of poor were in the middle and the northern zones, namely Kano Sokoto, Bauchi, Niger, Plateau, and Borno. About one-third of all poor people are in the Sokoto, Kano, and Bauchi".

4.2.1.a: Inequality:

Nigeria is also one of the most unequal societies in the world, with income distribution skewed heavily such that whenever aggregate growth occurs, it is not shared by all. On the average, Nigerians are very income-poor. But the skewed distribution of the available income makes the situation of the have-nots to be desperate. The UNDP/Nigeria (2001) observes that while the highest income bracket constituting only 10 percent of the population shares 31.4 percent of total national income, the poorest 10 percent has only 1.3 percent. Nearly 50 percent of total national income is owned by 20 percent of the highest income group. In contrast, the poorest 20 percent of the population own only 4 percent of total national income. Nigeria's Gini coefficient is moving quite close to 1[34]. Tackling poverty requires a combination of growth and redistributive measures.

4.2.1.b: Causes of poverty:

Poverty is a multi-dimensional phenomenon—involving income and all kinds of social and economic deprivations. Consequently, the causes are many and varied. Following the responses of many Nigerians as documented in the *Voices of the Poor from Many Lands* edited by Deepa and Patti (2002), and documentation from other studies, several factors were identified as the major cause of poverty in Nigeria. They include: political turmoil/complex political history; extended family system; poor governance; ill-being and bodily risks; eroding physical environment; seasonal stresses; crime and conflict; poor education; gender inequalities and domestic violence; regional/tribal and ethnicity disparity; religious conflicts; and many other sociological factors. Poverty in Nigeria increases with age and dwindles when the educational level of the household is higher. It has a positive relationship with large family size and a negative function with male-headed households. The negative relationship with male-headed households is attributed to the higher dependency ratio—which falls more heavily on men due to African extended family system.

Perhaps, two key factors that need to be emphasized are income and the role of environmental degradation (see Box 4.2 below). On a purchasing power parity (PPP) basis, Nigeria's real per capita GNP was $860 in 1979-99. This leaves Nigeria as one of the poorest countries in the world, ranking 194th. This is not surprising as shown in Section II of this Report.

Box 4.2: Poverty and the Environment

The national economy of Nigeria is critically dependent on products and services generated by the natural environment and on oil in particular. The majority of the poorest Nigerians depend directly on natural resources. Their livelihoods are intimately linked to soil productivity and availability of water. Similarly, the productivity of the urban poor is closely connected to safe access to natural resources, whether coastal and maritime or groundwater resources. Thus, sustainable use of Nigeria's natural resources is fundamental to poverty reduction and long-term development.

Analytic work carried out in 1990 noted that land degradation is the most serious environmental problem facing Nigeria. Three aspects of the problem were identified: soil

[34] The Gini index is a common measure of inequality. The closer the index is to unity, the more inequality there is in a country. And the more inequality the greater the proportion of increases in national income that goes to the non-poor – usually to the richest 20 percent of the population.

degradation, affecting 50 million people with an annual cost estimate in excess of US$3 billion, water contamination, affecting 40million people and estimated to cost more than US$1 billion dollars to correct, and deforestation, affecting 50million people, with an estimated loss of forest resources of US$570 million annually. In aggregate, the annual cost of these and other resources of environmental degradation were estimated to be on the order of US$6.9 billion in current prices, or 20% of GDP. While little new data is available, the situation has more than likely worsened since 1990.

The most striking example of environmental neglect has been in the oil sector, where natural gas flaring has contributed more emissions of greenhouses gases than all other sources in sub-Saharan Africa combined. The energy loss associated with this flaring of four billion cubic meters of natural gas annually is equivalent to 60% of the total thermal-based power generation in sub-Saharan Africa. Moreover, pollution associated with oil industry activities in the Niger Delta has been a flashpoint for political unrest in the Delta. The National Strategy for the Environment recognizes the importance of arresting the rapid degradation of the natural environment. An important institutional reform already carried out by the present administration is the establishment of a Federal Ministry of the Environment responsible for ensuring protection of the environment and conservation of its fragile natural base. The FGN is committed to environmental sustainability but there are serious capacity problems, particularly at the state and local levels.

Source: World Bank, Joint Interim Strategy Update for the Federal Republic of Nigeria, May 2001

4.2.2: Gender Issues:
An important feature of Nigeria's social and economic relations is the striking gender disparity. The UNDP's gender-related development index [GDI] and gender empowerment measure [GEM] are composite measures reflecting gender inequalities in human development. The closer a country's GDI is to its HDI; the less gender disparity there is in the country. Because of the unequal progress in building women's capacity in different countries the GDI is usually lower than he HDI. Where the GDI rank is higher than the HDI, there is a more equitable inter-gender distribution of human development. Nigeria's HDI value in 1997 was 0.456 while its GDI was 0.442. Its HDI rank was 146 while its GDI rank was 120. On the basis of HDI and GDI and also in comparison to other countries, distribution of human development between men and women is more equitable in Nigeria than in many other countries. The women generally live longer than the men although the men are better off in terms of education and income. But the disparity in income is very wide—the real GDP per capita of the female population being only 42.8 percent that of the male (UNDP/Nigeria, 2001). Table 4.9 below shows some comparative gender development indicators pertaining to education. On both primary school enrolment and adult literacy rates, the latest numbers indicate that females have overtaken the males. While the females have improved over the years, the male performance has declined.

Table 4.9: Nigeria-Comparative Gender Development Indicators						
	Percentages of total In Specified Groups in specified Years					
	EDUCATION				Percentages of House-holds Living in Poverty	
	Primary School Enrolment		Adult Literacy Rate			
Years	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
1980					27	29
1985					47	39
1990	60.9	39.1	42	57		
1991	56.2	43.8				
1992	55.9	44.1			43	40
1993	56.3	43.7	41	58.2		
1994	55.9	44.1				
1995	55.5	44.5				
1996	55.7	44.3	47.2	61.4	60	68
1997	56.5	43.5	46.2	60.7		
1998	54.8	45.2				
1999	51.5	48.5				
2000	51	49				
2001	49	51				

Source: Federal Office of Statistics Nigeria Gender Comparative Profile 2002

The favourable development with regards to educational attainment of women as depicted in table 4.9 above does not reflect the lingering social exclusions and discrimination against women. Despite the commitment by the Federal Government to ensure gender equality, there are still numerous legal, regulatory and cultural cum structural barriers that are loaded against women in terms of equal access to health, education, financial and agricultural extension services. There are thus, several areas requiring strategic attention, including the following (see World Bank Interim Strategy Paper, 2001):

- *Agriculture:* Studies suggest that rural women do more farm work than men--- they work 14 hours a day (9 hours in agriculture and 5 in other tasks) compared to a little over 8 hours per day for men. Any investment to reduce women’s work burden (such as water supply, means of transportation, woodlots and labour-saving technology for household tasks) will free up time to increase income and to allow girls to attend school. These investments will also have important beneficial effects on health.
- *Security*: The poor are particularly vulnerable to crime. This is even more so for women where an unequal power relationship sometimes leads to sexual harassment and in the worst cases to teenage pregnancies and the spread of HIV/AIDS.
- *Political Power*: While women’s roles are changing, women are under-represented at most levels of authority. This seems particularly the case in traditional communities and at the local government level. This has important implications for ensuring gender-responsiveness in Community-driven development work.
- *Access to Assets:* Women’s control of household assets varies across Nigeria’s traditional societies. Among the Yoruba, for example, women are expected to earn their own keep as well as that of their children, and thus have substantial economic independence. This is less true of other areas, particularly in the Muslim North. Gender imbalances in access to and control of

assets directly limit productivity and growth, and are impediments to the realization of poverty reduction objectives.

Box 4.3: Women Vulnerability: Marital and Procreative Circumstances in Osun State

Widows. Women who lose their husbands face both economic and social problems. They carry out farm operations, which are normally done by husbands (weeding, clearing virgin lands, harvesting, planting, etc.) and they often depend on their hired labourers and friends. Such women feed, educate and maintain children often without assistance from relations and friends. A widow (one of the selected case studies in Akeju-Rabiu) lives with her 2 daughters, 2 sons and grandchild. Her economic problem is compounded by one of her daughters who is an adolescent mother. The widow combines nursing and caring for the grandchild with her roles as a provider. Her son in secondary school lacks the basic needs-books and uniform. She is engaged in farm work, cracking palm kernel s, and food processing. Unlike most other women, she tends to have total control over her time. She attends village meetings and seems vocal in the community. Her household lives below the poverty line. She sleeps with her two daughters and grandchild in a room which is small and over-crowded, while her sons sleep in a smaller room, just big enough for a person to stand.

Infertile women. Infertile women feel condemned, unhappy and un-respected. The have no right to husband's property, neither do they have free access to other women's children to run errands, and to give necessary assistance on the farm. This is particularly so when these other children are busy helping their own mothers, or when there is rift between infertile women and other mothers.

Unmarried mothers. Unmarried mothers suffer disgrace and face embarrassment in the community. They only find support with their mothers e.g. the case of the widow in Akeju-Rabiu and her unmarried daughter. Reportedly, fathers are not sympathetic towards such daughters.

Mothers with only female children: Mothers with only female children suffer neglect from the husband, face opposition from in-laws, lack access to husband's property and their husbands may take other wives to bear them male children. Such mothers again lack access to labour of male children and also have no say in household decision-making processes. The women further explained that such losses/deprivation will affect their children's schooling because money will be in short supply, as the woman would have to bear the responsibilities by herself.

Source: Participatory Poverty Assessment Study 6b: women and Children in Poor Households in Osun State.

4.2.3: The Coping mechanisms of Households to Poverty

The poor copes through a number of self-survival mechanisms--- using mostly socio-cultural networks, multiple jobs, and mostly engaged in the informal sector. Here we present some of the coping mechanisms as documented by the Participatory Poverty Assessment study (PPA), and the Voices of the Poor from Many Lands, with selected illustrations from parts of Northern and Southern Nigeria.

4.2.3.a: Northern Nigeria:

Northern Nigeria here refers to the three socio-political zones--- North West, North East, and North Central zones, and these three account for about 55 percent of Nigeria's population but 35 percent of its GDP. Poverty is dominantly a northern phenomenon. The coping mechanisms of the poor in the North, are in many ways similar to those of the Southern poor--- pointing out that the poor, wherever they are, face identical challenges and deprivations--- lack of assets, mostly illiterate, deprivations of basic socio-economic facilities, lack of voice, etc. A few illustrations would suffice:

Self-Help Organization in Obusa, Benue state (North Central)

The PPA Study documents the coping mechanism in the rural villages where the people organize to substitute for the state--- even in the provision of basic infrastructure. Age groups are generally self-development oriented. They construct roads, act as thrift and credit associations, procure farm inputs for their members and collectively supply labour on the farms of their members. The market in Obusa was virtually built by one age group. The local government planned the market and allocated plots to the age-groups who built the stalls and collect fees on market days. They pay annual rent to the local government. The age groups have an elaborate organizational structure that includes a chairman who acts as the spokesman of the group. There is also a secretary who most times is literate in order to keep records of the on goings within the organization. The age group also acts as a powerful tool of socialization and maintenance of law and order for the community. People of the same age have to qualify to be members of the community. They also have to be hardworking, of sane mind and not convicted of any crime. To the district head of Owokwu, "without age groups in Igede, we could not survive because of general government neglect"

Koranic and Government schools in Sokoto and Kaduna

Furthermore, the PPA studied the challenge of coping with two school systems in the villages. In government primary schools visited in each of the six communities in Sokoto, at least one block of classrooms is available but they are in varying states of repair. In five of them, blocks were found with no roofs or windows. In some cases renovation has been undertaken, but in others blocks have been abandoned and new ones built. The general practice is to teach children of all levels in one room. Desks are in a very short supply and must be shared or children sit on the floor to work. In Dankala and Kwanawa villages, there are no usable rooms and children sit under trees in dry season and in the sitting room of the village head during the rains. In all observed cases, schools lack toilets and water as well as furniture and basic teaching materials. Teachers have no office accommodation or table to use in the classroom. Because of lack of accommodation and facilities, teachers tend to live away from their school village and fail to attend classes regularly. When they do attend their teaching is ineffective since children tested by the study team had very low reading and writing skills.

In the Koranic schools in Kaduna, teachers offer daily classes, during which children sit on mats in front of the mallam's house. Learning is by rote, as well as through writing of Arabic alphabets using slates and pens made from cereal stems. All children participate with classes held between 3 and 5 p.m. At the weekends there are often two classes per day. In each community there are two or three mallams, each with between 20 and 30 pupils. Payment is usually between N5 and N8 per month as agreed between parent and mallam. At the Koran school, Islamic jurisprudence, ethics and other texts are taught. Classes consist of three or four pupils meeting at a time convenient to them and the mallam. The system receives no government support. In two communities, there are also government-assisted Islamiya schools for adult men and women.

In all communities visited in Kaduna both parents complained about poor facilities in the government schools and poverty of teachers, which affected commitment to their work. In Wuciciri teachers were posted from Zaria and they never attended schools regularly. In Gedege, during the farming season teachers hardly attend the afternoon sessions as they quickly go to work on their farms.

In the Muslims communities in Kaduna, parents ensured that the children attended the Koranic lessons organized informally in a mallam's compound or formally in the Islamic schools. By contrast, only a minority of children are sent to the primary school, in contrast to 150 children who attend the Muslim school. The community was convinced about the desirability of Koranic education towards imparting moral discipline and religious knowledge.

Health Coping mechanisms in Sokoto (Traditional Healers)

Aside from education, the PPA Study of Access of the Poor to Basic Social Services in Sokoto State finds a dual system of health care. In the six areas studied in Sokoto, traditional systems of health care are the dominant systems while the modern system are in peripheral in terms of accessibility and utilization.
There is comprehensive range of local medicals specialists, including healers, surgeons and midwives. Residents rely on them because they are always available and have no shortages of the pharmacopoeia they utilize. Bonesetters are also well patronized to deal with injuries arising from accidents. All these healers may combine their skills with recitation of Koranic verses and prayers and dissolution of written prayers in water for drinking.

Traditional healers combine this work with other activities such as farming or trading, since they do not derive a living income from their health work. They operate from their homes, which are easily accessible to patients. Each healer may treat five or six cases per day. Charges relate to the costs of locating and preparing the medication.

In community discussions, residents emphasized the need to bring traditional medicine under the government umbrella introducing licensing and training. There is already a training scheme under which the traditional birth attendants (TBAs) receive training in basic modern midwifery. Community members expressed the hope that the approach with TBAs can be extended to upgrade other local health practitioners.

4.2.3.b: Southern Nigeria:

The nature of the coping mechanisms of the poor in the Southern Nigeria (which is largely similar to what exists in most parts of the North and South of Nigeria) is illustrated by the Boxes 4.4 and 4.5 below. The boxes focus on the coping strategies in Oyo state and the safety nets in Osun state---both in the South West.

Box 4.4: Coping Strategies of the Poor in Oyo State

The following is a listing of the strategies used by poor urban dwellers to cope with high and increasing prices:

(a) Buy food on credit at place of work. There is usually some agreement between a food seller and the workers so that at the end of the month or at the agreed date, all or part of the money will be paid. With that the worker is at least sure of one good meal a day.
(b) Engage on other jobs such as farming, hiring out of labour, firewood cutting, load carrying, petty trading, cassava peeling, gari frying, extra coaching (of school children) and prostitution.
(c) Sell assets acquired in the past
(d) Be more self-discipline, that is deny oneself what one used to eat, drink, use or have
(e) Take more solace in God by praying more in churches and mosques
(f) Eat fruits (such as pawpaw) alone with a meal
(g) Eat unconventional foods such as yam peels, maize husk (eri), house rats, stale foods etc.
(h) Eat eba (gari), amala 9yam flour meal) etc, with vegetable (ewedu) and locust bean (iru) and/or magi (stock cubes) or even without stew.
(i) Soak gari in water and keep for a long time so that it can go round the family
(j) Go to ceremonies (parties) to pack leftovers
(k) Use coal pots and firewood for cooking instead of gas or kerosene
(l) Delay or avoid marriage or even send wife back to her parents (divorce)
(m) Limit the number of children or even stop having children
(n) Long period of breastfeeding (2-2.5 years)
(o) Walk to and from work or school
(p) For school children, use of books and uniform of older by younger children
(q) Withdraw children from school
(r) Run away from town (away from family and/or creditors)

In urban areas, people eat less often and cheaper foods. Cheaper clothes and shoes are won. Fruits and berries that used to fall away are now picked when they are hardly ripe. Local soap has replaced manufactured soap for washing people and clothes. People walk long distances to work and to avoid meeting relatives in taxis who might expect their fares to be paid. Most people do not join cooperatives because they cannot benefit from the loans. Poor wage earners try to eat in credit at their work places, settling the bill fully or partially on payday. Rural relatives no longer send food. Indeed they expect money from urban relatives, but this is not forthcoming. People have stopped leisure activities.

Source: Participatory Poverty Assessment Study 4: Price Changes and Poverty in Oyo State

Box 4.5: Safety Nets In Osun State

The poor utilize a broad range of safety nets, including the following:

- Several income generating activities, including agricultural diversity
- Extended family rights and obligations
- Formal and informal associations
- Individual initiatives.

In Mosarajo, a village poorly served by infrastructure, tree crops such as cocoa, kola nut and citrus are major income earners for the people. A village leader commented that he provided for his social security years ago by planting cocoa and citrus trees. Now that he is too old to continue active farming, he is still able to get income from the produce of these trees.

A common practice in the study area is "futures" marketing. Farmers sell off their crops before maturity, thereby reducing their risks (e.g. theft or crop loss from pest infestation during storage) and providing cash at times when resources are scarce. Respondents confirmed the practice as widespread, in order to meet urgent needs for which no credit is available. One consequence is that farmers earn less than they would if they sold their produce at maturity. They are therefore even less able to break out of the subsistence cycle, since they only cover production costs plus a small amount for other family needs.

Most farmers, male or female, have other incomes sources, which they may not consider as an occupation. Most rural and urban households keep a few small livestock such as chickens, ducks, goats or sheep. Such animals do not provide a regular income, but can yield cash in terms of emergency, or for entertaining an important guest, etc. Many rural residents also hire out their own labour, buy and sell produce, do crafts or cottage industries, etc., depending on local circumstances and their resources.

The extended family assists its members in a number of ways. Since members may reside in various locations in both rural and urban areas, remittances of cash, materials goods and exchange of food are common between rural and urban relatives. Members who need a place to live will often find a space in the home of a relative. The urban poor tend to go back to their villages, to find food and to survive during times of unemployment, etc. some send their children to relations in the villages, where they will be fed and will not need to pay transport fares to and from school. This often becomes a problem later, since there are rarely secondary schools in the villages. The familial network links people to each other with reciprocal obligations and privileges, and is also a channel of information, which may reveal economic and other opportunities.

However, several respondents claimed that in recent years remittances have become less common than in the past. Rural people are still generally able to produce their own food, with some excess, but many of the urban rely on a small salary and have limited opportunity to make money from other sources. The inflation of the last few years has reduced their incomes, making it increasingly difficult to feed themselves, not to mention caring for relatives at home. Most of the rural poor have contacts only with poorer members of urban society, so that remittances to rural areas cannot play a major economic role. Further, the poor are increasingly likely to be able to send food only to lessen the burden of rural members sent to town. The increasing transportation costs also play a role in reducing visits and exchanges.

Source: PPA Study 3C: Initiatives of the poor and Informal Safety Nets on Osun State.

4.2.4: The Government's Policy Responses to Poverty and Inequality

Nigeria's economic policy since independence in 1960 has been (at least in rhetoric) directed towards the elimination of poverty. Right from the first National Development Plan (1962-8), and other subsequent five-year plans, poverty reduction has been at the centre of government policy. Since the mid 1970s, the failings of previous policies to stem the rise in poverty necessitated the design and implementation of several *targeted* programmes and projects to tackle poverty. These programmes and projects have encompassed several areas, including: many multisectoral programmes; agricultural sector programmes; health sector programmes; targeted education programmes; housing programmes and financial sector programmes (See Appendix tables 16 and 17 which provide details of the Federal and State Governments' projects and programmes for poverty eradication. Indeed, hardly any year has passed without a programme or project being launched to reduce or eliminate poverty.

To demonstrate the priority given to poverty reduction, one of President Obasanjo's first actions after the swearing-in ceremony was to inaugurate a committee to rationalize and streamline the various anti-poverty institutions and programmes. The result of the effort was the creation of the National Poverty Eradication Programme (NAPEP) in 2000, with the governing body headed directly by the President of Nigeria while the Vice-President is the Vice-chair of the body. Later on in 2001, a parallel effort to develop another poverty reduction strategy--- consistent with the World Bank's Poverty Reduction Strategy Paper (PRSP) framework was started[35] (See Appendix table 18 for some of the comparative features of the NAPEP and the draft PRSP document).

But the results have been disappointing. Table 4.10 below shows the targets versus actual performance in respect of the Obasanjo's economic direction, especially in areas germane to poverty reduction. Poverty incidence may have indeed, worsened little relative to the 70% as at 1999 given that the average growth rate during the period (3.3%) was not up to the 5% needed to stop poverty from worsening.

Table 4.10: Evaluation of National Poverty Eradication Programme (NAPEP)

Indicators	Targets	Achieved as at 2002
GDP Growth Rate (%)	10	3.2
Poverty Incidence (%)	30	70.2
Inflation Rate (%)	3-5	14
Gainfully employed (%)	70	Probably worsened
Maternal Mortality (per 100,000 live births)	800	1000
Infant Mortality (per 1,000 live births)	78	77
Population access to portable water (%)	100	50
Household access to Electricity (%)	80-100	No data: some

[35] The PRSP is a process-conditionality, and the resulting document is required to be approved by the Board of the IMF and the World Bank. This is often a requirement for countries seeking HIPC debt relief., and Nigeria is not a HIPC country. For Nigeria, there is a fundamental issue of weak ownership of the process as it is largely seen as 'what donors want'. The Government has its own NAPEP--- as the pillar of its poverty reduction strategy, and it owns it and supports it. On the other hand, donors do not support the NAPEP. The Government largely pays lip-service to 'wanting' the PRSP, but it is not clear who in Government is losing sleep because there is no PRSP. To the extent that it is seen as 'what donors want' in order for Nigeria to access IDA funds or negotiate debt relief with the Paris Club, there is 'enthusiasm' for it, but the extent to which it is going to influence policy choices in Nigeria is not clear.

		improvement
Children fully immunized (%)	100	17
Functional telephone lines/ 1,000	30	4
Adult Literacy rate (%)	80	53
Life expectancy rate (%)	60	52
Increase capacity utilization of the manufacturing sector (%)	50	40
Reduction in population (%)	2	2.8
Corruption	Minimal	Ranked 2nd from the Results of Transparency International

Sources: PRSP Interim Paper on Policy Directions 2002, CBN Annual Reports and Statement of Accounts, UNDP Human Development Report 2002; Soludo, C.C. (2003).

There has been no comprehensive and systematic evaluation of the poverty reduction measures adopted over the years (especially since the early 1990s) in order to assess their impacts. One fact is that they have failed to deliver their ultimate objective of reducing or eliminating poverty. These failures can be attributed to a number of factors including: lack of relevant statistics for effective planning; institutional rivalry and conflicts as a result of duplication of functions, corruption at all levels of society; no effective long-term plans for the sustenance of the programmes; etc (see Box 4.6 below for evaluation of the programmes in the 1990s).

Box 4.6: Assessment of Government Programmes Related to Poverty and of Community-Based Organizations and Initiatives

Assessment of government Programmes Related to Poverty

- Virtually all the programmes lack targeting mechanisms for the poor and do not focus on the poor
- Frequent policy changes and inconsistent implementation have prevented continuous progress and created a climate of uncertainty, resulting in most operators having very short-run perspectives of the objectives of the programmes
- Severe budgetary, management and governance problems have afflicted these programmes, resulting in facilities not being completed, broken down, un-staffed and under equipped.
- Inadequate coordination of the various programmes has resulted in each institution carrying out its own activities with little regard for activities run by other institutions, leading to considerable duplication of efforts and inefficient use of limited resources.
- The scope of the activities of most institutions is too wide and too diffuse; as a result, resources are too thinly spread in too many activities. For example, both the directorate for foods Roads and Rural Infrastructure and the Better Life Programme covered almost every sector and overlapped with many other existing programmes.
- Due to lack of involvement of beneficiaries in the formulation and implementation of programmes, beneficiaries do not identify themselves sufficiently with these programmes and do not actively support them, either in the form of local resource contribution or in identifying themselves with the sustainability of the programmes.

Assessment of Local Community-Based Organizations and Initiatives

- A plethora of local organizations and institutions and institutions are active in the communities. These include: traditional and kinship institutions, community associations, occupational associations, cooperatives, women's groups, immigrant welfare association and religious organizations. These organizations have quite diverse (and often multiple) purposes, and vary considerably in their constitution, vision and dynamism.
- Considerable local development efforts are undertaken by these local organizations and institutions. In many communities, they are responsible for the construction of primary and secondary schools, clinics, and health centers, town and community halls, wells and boreholes, drains and culverts. They also supply accessible, reliable and flexible financial services to their members, as well as welfare and relief to the community at large.
- Organizations with an exclusive female membership are active in many communities, but participation of women in decision-making in most community-based organizations is often limited.
- Community-based organizations involved in the development and poverty alleviation work are commonly hampered by lack of financial resources, limited capacities for managing and monitoring activities, weak financial control systems and limited technical skills. Links between these organizations and outside agencies are generally weak.

Source: World Bank (1996, p.91); Report on Consultative Surveys in Thirty-Six Communities, prepared for the Poverty alleviation Programme Development Committee (PAPDC), June 1995; and other PAPDC background papers and reports.

5: Growth Prospects, Competitiveness Needs and Programmatic Recommendations

5.1: Summary of Findings

From the preceding analysis in the previous sections, some of the key messages in terms of findings include:

- Nigeria has had lost decades of stagnant growth and has been one of the slowest growing economies in the world on a per capita basis in the last 30 years despite receiving about $300 billion from oil exports. There is great spatial and sectoral unevenness in terms of the share of GDP and growth performance: the Northern part of Nigeria with about 55% of the population accounts for about 35% of GDP while the Southern part accounts for 65%; production sector is still dominated by the primary sector—agriculture (41%) and oil (13%) while the secondary sector especially manufacturing has been stagnating (about 6% of GDP) thereby making Nigeria one of the least industrialized countries in Africa; the services sector has been the fastest growing sector since independence. Agriculture is still dominated by peasant agriculture with low and declining productivity; urbanization rate is one of the fastest in the world and with stagnant secondary sector, the urban unemployment is acute with the attendant high level of crimes and social-political tensions. Broad macroeconomic aggregates—growth, terms of trade, real exchange rate, government revenue and spending, etc have proved to be some of the most volatile in comparison to over 100 developing countries. High macro volatility has become a key determinant as well as consequence of poor economic management.

- Overall, the economy is characterized by low savings-investment equilibrium and low growth trap—and lack of high growth persistence is a defining feature of the economy such that in over 40 years, it has never had a growth rate of 7% or more for more than three consecutive years.

- The very low productivity/uncompetitiveness of the private sector and the lack of diversification of the economy are due mainly to the atypically very hostile business environment --- Nigeria is one of the most expensive places to do business in the world. The constraints to businesses range from infrastructure deficiencies, poor security of lives and property, pervasive corruption and rent-seeking, access and cost of finance, weak institutions, ill-defined property rights and enforcement of contracts, and incoherence and frequent reversals of economic policies.

- Nigeria is set to miss the Millennium Development Goals (MDGs): Poverty is deep, pervasive and worsening—with great regional, sectoral and gender disparities. Although poverty is widespread, extreme poverty and poverty incidence exceeding 80% are mostly concentrated in the Northern Nigeria. In particular, poverty is becoming *dynastic* in the sense of the children of the poor having narrowing opportunities to escape poverty. For example, because of the increasing deterioration of the public education system, education is fast losing its potency as the social equalization ladder. The elite and middle class send their children to private schools or abroad while the children of the poor are condemned to poor public education and hence become largely unemployable and/or unemployed/underemployed. Other social indicators are also under stress---inequality is one of the worst in the world; unemployment is threatening social cohesion, security and democracy; and the imminent HIV/AIDS pandemic is a potent bomb waiting to explode and with potential dire consequences for productivity in the economy.

- Despite efforts to promote private sector-led, competitive market economy framework, there is still the fundamental challenge of transition from statism and rent-seeking in an economy dominated by the public sector. The dominant mind-set is still that of command and control, inward-looking and protectionist despite the rhetoric about building a competitive market economy and deep vested interests which profit from the system have proved resilient. The overbloated and inefficient public service has become one of the key problems, and weak institutions and persistent implementation failures are other key features.

- Macroeconomic policy management has been characterized by the boom and burst cycles. Macro policy has been highly circumscribed by the high/inefficient but highly volatile and unsustainable public sector spending, and atypically high volatility of major macroeconomic aggregates. Fiscal decentralization has proved an enduring challenge to effective macroeconomic stabilization and efficient public finance management in Nigeria. There is also the lack of policy coherence between the states and the federal government, and even among the various agencies of the federal government.

These findings have implications for policy and programming of donor interventions.

5.2: Medium term growth scenarios

What does the future hold for the Nigerian economy? The message so far in this Report is that the Nigerian economy faces enormous challenges and a bleak future if fundamental steps are not taken to redress the legacies of the past. Among the many requirements for rejuvenating the economy is rapid and broad based growth. But if the past is any guide to the future, then the prospects are not bright. In the last 25 years or more, the highest average regime growth performance of about 5 percent per annum was recorded during the Structural Adjustment period (1986-92). This is just the growth rate required to prevent poverty from worsening (and not good enough to reduce it). The average growth performance in the 1990s (2.8%) is just equal to the population growth rate leaving per capita growth rate at zero, while the average performance since the civilian transition in 1999 (1999- 2002) was about 3.3 percent, with per capita growth rate at 0.5 percent per annum.

Table 5.1 below illustrates the implications of alternative growth scenarios for per capita income and poverty in the medium to long run. The scenarios assume that the respective growth rates are maintained until 2030, with no demographic transition (i.e., constant population growth rate of 2.8%), and also constant urbanization growth rate of 5% per annum.

- Scenario A considers the implications of Nigeria maintaining the average growth performance recorded in the last four years (about 3.3%) until 2030. Assuming that per capita income was \$300 in 2000[36], by 2015 it would have increased by just US\$23, and by 2030 by just \$48—leaving Nigeria as one of the 10 poorest countries in the world if current

[36] The assumption of US\$300 as the per capita income is the most generous assumption, given the poor database and also the fact that various institutions such as the IMF state the per capita income as about \$260.

trends in the rest of the world continue. Poverty obviously worsens and given the poverty-growth elasticity, the incidence could be as high as 90 percent in 2030.

- Scenario B considers the implications of re-enacting the most sterling growth performance in the last 25 years, that is, the SAP era average growth rate of about 5 percent. This is the growth rate required to prevent poverty from escalating but not enough to reduce it. In essence, poverty incidence stays constant at 70 percent even in 2030, while per capita income increases to $416 in 2015 and $576 in 2030—still leaving the average Nigerian very poor.
- Scenario C considers the implications of Nigeria fundamentally changing its strategy and achieving an average of 7 percent growth rate per annum—which is the growth rate compatible with the Millennium Development Goal (MDG) of reducing the incidence of poverty by half in 2015. This growth rate leads to the halving of the incidence of poverty in 2015, and leaving less than 20 percent of the population below poverty line in 2030.

A caveat to these scenarios is that the impact of the 'average growth rate' on poverty would significantly depend on the sources of the growth. Poverty incidence may not significantly come down (even with the 7 percent growth rate) if the growth process is not pro-poor (that is, not broad based or broadly shared). It would make a fundamental difference whether growth is led by agriculture, small and medium scale enterprises and manufactures or by the mining and quarrying sector. It would also make a difference whether or not some of the severely poor states and locations receive targeted attention to jump-start a process of poverty reduction.

Table 5.1: Implications of Alternative Growth Scenarios

	2000 Actual	2015	2030
Per capita Income Assuming OBJ Average Growth performance (1999- 2002): 3.3% or 0.5% per capita Poverty (assuming 3.3% annual growth)	$300 70%	$323 80%	$348 90%
Per capita income assuming SAP-era 5% annual growth (1986- 1992) Poverty Incidence (assuming 5% annual Growth)	$300 70%	$416 70%	$576 70%
Per capita income assuming MDG-compatible Growth rate of 7% per annum Poverty Incidence (assuming 7% annual Growth)	300 70%	556 35%	1031 17%
Nigeria's Population (with 2.8 annual growth rate)	120 million	182 million	275 million
Urbanization (with 5% annual rate of growth)	42 million (35%)	87 million (48%)	182 million (66%)

These rather gloomy scenarios A and B, which derive from Nigeria's historical experience, are also in the context of a rather high population growth rate and high urbanization rate. If the population continues to grow at 2.8 percent per annum, there would be 275 million Nigerians by 2030, out of which 182 million or 66 percent of them would be in urban areas. Recall from the analysis in section II that the secondary sector of the economy, especially manufacturing has been stagnant. If this sector and the services sector do not grow sufficiently to absorb the surge of labour force to the urban areas or the rural areas sufficiently transformed to stem the rate of rural-urban migration, the prospective rate of urban unemployment would be chaotic.

Furthermore, all these are in the context of increasing desertification, land use intensification, and rain-fed agriculture with low productivity. If current trends continue, agriculture would increasingly not be able to support the economy both in terms of employment and income. The average age of the labour force in agriculture is about 48-60 years, and the growing food import bill (about 14.4% of total imports) attests to the potential food security crisis, as Nigeria is increasingly unable to feed herself. The natural resource base of the economy is depleting fast, and the process of diversification is very slow. The educational system is rapidly decaying with the result that an increasing proportion of the graduates are unemployable. All these have grave implications for poverty and unemployment, and hence grave consequences for crime, conflict and sustenance of democracy.

A more fundamental concern is the slowness in the change of economic governance, strategy, and implementation. There is a broad consensus to move towards a private sector-led, competitive market economy framework but little consensus and rigorous articulation of how to get there. Issues of policy and strategy are characterized by ad-hoc measures, frequent reversals, and policy choices not rooted on sound analysis. Weak economic governance—corruption, weak institutions, lack of transparency and accountability--- persists. Key macroeconomic variables remain highly volatile. Government finances are in crisis with domestic debt increasing by 250 percent between 1999 and 2002 (to about US$10 billion), and an external debt burden, which the government is barely able to service about 50 percent of the contractual service obligations. Government finance is also characterized by pension crisis, arrears of salaries of civil servants, huge debts to government contractors and suppliers of goods and services, a boom and burst cycle of revenue and expenditure, mis-allocation and mismanagement of resources, etc (see section II for details). At the state government level, a major crisis is looming but goes largely unnoticed. In many states, debts are accumulating at unsustainable levels and weak institutions and economic governance are very acute. Escaping these traps into a sustainable development path can be daunting, except by a flute or a fundamental change of strategy.

5.2.1: Requirements for High Growth

There is a broad consensus that a sustained annual GDP growth rate of 7 percent or higher will be required to meet the MDG of halving the incidence of poverty by 2015. For Nigeria, this would be miraculous, given that in the over 40 years of independence, it has never achieved such a growth rate for more than three consecutive years let alone sustained over a longer period. Lack of *growth persistence* is a feature of Nigeria's economic history.

Achieving such a major growth turnaround requires an investment rate of at least 30 percent of GDP per annum (assuming the East Asian efficiency level or ICOR). This translates to about $12 billion in investment per annum. With a domestic savings rate of about 14 percent, and with a total resource inflows (FDI and ODA) approximately 3-4 percent of GDP, there is still a financing gap of about 12-13 percent of GDP or about $5 billion per annum of *additional* investment. Note that this calculation is predicated on a very low ICOR (high efficiency level comparable to that of the East Asian economies). In the medium term of next five years, it would be spectacular if Nigeria can attain such an efficiency level. If we use the current Nigerian ICOR--- which incorporates a very high degree of waste/inefficiency, the financing gap required to achieve the target growth rate could be as high as 25 percent of GDP or about $10 billion in *additional* investment. Thus, under both scenarios (best and worst case scenarios of ICOR), the financing gap ranges between $5- 10 billion of additional investment. These calculations, with all their imperfections in terms of the assumptions underlying them, still give a rough idea about the nature of the resource constraints—which is huge indeed.

To overcome the low growth trap and unleash a momentum for a virtuous growth path, Nigeria needs to invest huge resources in the right composition[37], and also address waste and inefficiency. As shown above, merely improving efficiency to the level of the East Asian economies lowers the additional investment requirements by 50 percent. This is a fundamental agenda for moving forward.

5.2.2: Are there potentials for new beginning? Yes. In Box 1.1 the abundant resource endowments and potentials for sustainable development are enumerated. There are both resource and growth reserves to be exploited for quantum growth leap. For example, Nigeria mimics a post-conflict economy in terms of idle productive resources--- with two-thirds of arable land idle, unemployment over 40 percent, capacity utilization in industry about 40 percent, etc. There are also abundant but largely unexploited natural resources—gas reserves about 174 trillion cubic feet or equivalent of 30 billion barrels of oil, petrochemicals, coal, gypsum, cold, gemstones, uranium, marble, etc. The new democratic experiment—which seems to be consolidating, and the prospects of improved governance and better institutions—is an asset for better performance. As the privatization of public enterprises deepens, it also promises to buoy up the private sector, and eliminate rents and reduce inefficiency. There are also opportunities offered by the globalization process (and prospects for leapfrogging) as well as the preferential and differential trade concessions under the U.S. AGOA, the EU-ACP-Cotonou Agreement and impending economic partnership agreement. If appropriate incentives are in place, the brain drain of Nigerians in Diaspora could be turned into brain gain--- through increased remittances, technology transfer, and even return of capital flight (which could be up to $2- 5 billion per annum). In other words, there are ample opportunities to jump-start faster growth—if the right strategy can be crafted and implemented.

5.3: Summary Agenda for Economic Growth and Competitiveness

From the analysis in the preceding sections of this Report, the agenda for reforms are self-evident, and there is a broad consensus around this agenda. It is fair to say that a broad consensus exists

[37] As pointed out above, the composition of investment matters a lot for income generation and poverty reduction. For example, nearly all of the current FDI flows go into the extractive (mainly oil) industry. If they were to flow to the non-oil sector especially the SMEs, energy, agriculture, telecommunications, and export-oriented manufactures, the outcomes for employment and poverty could be dramatically different

among key stakeholders in the Nigerian economy—Government, private sector, households, and external actors—on WHAT to do to get the economy going (see various Government policy documents for various sectors, the Obasanjo Economic Direction, 1999- 2003; the Vision 2010 Reports; various summary reports of annual Economic Summits, World Bank's country assistance strategy papers, IMF's memorandum of Article IV consultations, etc.). It is broadly agreed that the challenge of development should be that of rapid growth with inclusion/poverty reduction, and that the key vehicle to achieve it should be a shift from statism and rent-seeking to a private sector-led, competitive market economy framework. About seven years ago, the World Bank (1996, pp.91-2, and p.19) aptly summarized this broad consensus as follows:

> A successful poverty reducing strategy in Nigeria will require a strong and focused emphasis on economic growth, access to social services and infrastructure, and targeting… To gradually reduce the number of people in poverty, growth must not only be rapid but also broad based, export enhancing and employment generating. Such growth can be achieved by emphasizing the expansion of the sources of growth away from excessive dependence on oil production into other areas that can generate increased employment and incomes---agriculture, small and medium scale industry, solid minerals (small scale mining), agro-processing, services, and construction. To generate such growth, Nigeria will need to remove price distortions, liberalize the trade regime, and invest in technology and physical capital (pp.91-2).
>
> Nigeria now faces three inter-related development challenges that are key to both welfare improvements for the general population and to poverty reduction in particular. First, it has to establish a viable and stable macroeconomic framework and to streamline the incentive regime. Second, it needs to downsize the public sector, and establish an enabling environment with accountability and transparency. Third, it needs to adopt sectoral policies and re-arrange priorities in public expenditures to promote efficient economic growth, increase productivity and target the poor. These challenges point to the need for Nigeria to make a fundamental shift away from policies and institutional arrangements that promote rent-seeking toward policies, programmes and institutions that promote efficient, sustainable, and broad-based growth and job creation (p.19).

The key elements identified above, and which the various government and private sector documents have also emphasized (including the Obasanjo Economic Direction, 1999- 2003) include:

Goals to focus on:

- Rapid and broadly shared growth (pro-poor growth)
- Diversification of production structure, and sustainable private sector-led growth, and
- Employment creation

Means/Instruments to achieve the goals around five major clusters

d. Improving economic governance:

- Reducing corruption and rent-seeking,
- Ensuring transparency and accountability,

- Reforming and strengthening weak and inefficient institutions for policy design and implementation, including:
  - Strengthening and reforming public procurement system for transparency and accountability, and ensuring higher value-for-money in spending
  - Reforming the civil service—rationalization/retrenchment, professionalization, and competitive wage structure
  - Reforming the budget process and financial management
  - Re-thinking fiscal federalism to manage oil rents and promoting competition at all levels of economic management

e. Managing Macro Volatility/stability

- New fiscal rules -- to manage boom and burst
- Addressing pension crisis
- Better debt management: No new borrowing -- [domestic debt becoming unsustainable -- grew 2.5 times since 2000- and $4 billion to $10 billion in 2002.
- Competitive and stable real exchange rate regime
- Better access and cost of credit for private sector

f. Infrastructure – urban and rural [critical for business and poverty reduction]

- Electricity; water
- Roads/ development of rail system
- Telecommunications
- Ports
- Strategy:
- operations and maintenance; Build, Operate and Transfer (BOT); private sector participation; value-for-money in investment
- Efficient and effective service delivery models

d. Enlarging the domain of private sector

- Deepening the privatization Privatization programme
- Money and capital market reforms to improve access to finance
- Institutional and regulatory reforms
  - Competition policy and anti-trust reforms
  - Administrative barriers to businesses
- Incentive structure – taxes, EPZs, etc
- Strategic Integration to global trading system
- Targeting of SMEs

f. Targeting the poor and vulnerable groups

- Education, Health and agriculture
- Legislation addressing women's access to assets [e.g. land], Inheritance; women's rights [affirmative actions]
- Promotion of demographic transition
- Provision of high yielding agricultural inputs
- Government investment in land for agriculture
- Promoting corporate social responsibility – for redistribution

- Targeting disadvantaged areas in public investment
- Innovative approaches through private sector

5.4: Strategic Agenda For Donor Intervention[38]

In the ideal aid delivery mechanism envisaged under the Comprehensive Development Framework (CDF) of the World Bank, and the various guidelines and rules of aid delivery approved by the OECD-DAC, all ODA should be effectively coordinated and completely aligned within the country's owned development agenda. The delivery mechanism should be mostly through the recipient government's budget; programme aid and sector-wide approaches (SWAPs) replacing project aid; and harmonization of individual donor procurement, accounting, and reporting systems and aligned to the country's own processes and procedures. Under this framework, it is the recipient country's government, with its country-owned development agenda, that should dictate the priorities for donor intervention and provide leadership in donor coordination. Were this mechanism to be fully operational, there would be no need for donors to design their individual strategic plans. A recent evaluation of the CDF Framework by the Operations Evaluation Department of the World Bank[39] shows that while progress is being made in some countries towards this framework, there is still a long way to go in many other countries.

Nigeria is significantly off-the-mark in terms of the conditions for effective aid coordination envisaged by OECD-DAC, especially in terms of having a country-owned development agenda and effective institutional framework and leadership to coordinate donor activities. Nigeria's relationship with donors has also been a rather bumpy one--- with the consequence of small but highly volatile aid inflows to the country[40]. The average civil servant jumps at every prospect of receiving money and support from donors although given the country's long history of isolationist policies and on-and-off relationships with donors, many are yet to transit from the siege mentality of 'us versus them' to see donors as development partners. On the other hand, the donors are yet to build enough trust and confidence to let Nigerians drive the process or are constrained by their procurement rules to insist on their own ways of doing business.

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[38] The goal here is to complement the detailed specific programmatic recommendations already provided in the Economic Growth Activities Assessment Report--- see Section 4 of that Report. Here we draw attention to the 'other issues' not covered in that Report.

[39] The Synthesis Report of the Evaluation (authored by Paul Collier, Charles Soludo, Carol Lancaster, Alison Scott, Ibrahim Elbadawi, John Eriksson, and Laura Kullenberg) is being published by the World Bank, and expected by end of May, 2003.

[40] Nigeria's relationship with the multilateral agencies especially the World Bank and the IMF has not been a rosy one, and the two institutions come into Nigeria with significant baggage. Given the peculiar history of how structural adjustment program was introduced in Nigeria, the average Nigerian perceives these two institutions as 'bad news' in the sense that they are seen as being synonymous with anti-people policies. Indeed, the easiest way to blackmail a government in Nigeria is to label it as being beholden to the World Bank and the IMF. Other donors (especially the bilaterals) come with less baggage, but there is still strong suspicion of the so-called 'donor hidden agenda'. These suspicions would take continued active interaction between donors and the people to clear over time. The so-called 'harmless donors'—the UN agencies such as the UNDP, UNICEF, ILO, UNIDO, etc enjoy a high degree of trust but they have little cash to be effective.

Thus, donors faces the challenge of how to design and deliver their assistance and be effective in assisting Nigeria achieve rapid and inclusive economic growth and development in the following contexts:

d. Relatively **small aid budget relative to the size of the Nigerian economy**: As indicated earlier, total donor aid budget for Nigeria is at best 1 percent of Nigeria's GDP while the average country in Sub-Saharan Africa receives about 10- 15 percent of GDP in ODA. For individual donors, their shares are even much smaller. For example, USAID's projected $60 million annual aid budget for Nigeria is about 0.13 percent of Nigeria's GDP—although it is still a large share of the total ODA to Nigeria. Relative to the *additional* financial needs (financing gap) of about US$6 billion needed to achieve the MDG-compatible growth rate of 7 percent or more, the resource constraint faced by donors raises other challenges that need to be tackled in order to be effective.

e. **Setting priorities**: Given the enormity of the economic development challenges and the relatively low aid budget, there is the challenge of how to set priorities, make maximum impacts and remain focused. Obviously, there will be demand and pressure to get into everything since literally everything needs to be done given the country's initial conditions. This temptation must be resisted.

f. **Delivery mechanism:** Even when the priority sectors/programmes are selected, there is the challenge of how to package and provide the assistance in such a way as to maximize its effectiveness.

We structure the recommendations around the two key themes of setting priorities and the delivery mechanism for effective impact on the economy.

At a general level, it is evident that the most important role for donors is to act as catalysts for change. That Nigeria has abundant resources is both true and false: true in the sense that its huge resources are being largely mismanaged, misallocated and wasted, and false in the sense that even if its so-called huge oil resources (amounting to about $90 per capita per annum) is efficiently spent, there would still remain significant resource gaps in terms of the requirements for sustainable long-term growth. However, even just helping Nigeria to get its priorities right and its resources efficiently deployed would significantly turnaround the comatose economy and set it on a path to poverty-reduction. The first order of business for donor agencies and USAID in particular therefore should be to assist Nigeria spend its money wisely--- by supporting change agents within and outside of government, mainstreaming of best practice ideas through policy dialogues, technical assistance in policy design and implementation, and demonstrative projects on 'how to do' things.

5.4.1: Setting Priorities:

As indicated earlier, donors cannot be effective if they do not set clear priorities and stick to them. Such a prioritization must derive from the observed needs in the economy, donors' lessons of experience in the last four years, as well as their comparative advantages in the programmatic areas. From all indications and the evaluation presented in this Report, Nigeria belongs to what the World Bank refers to as 'Low Income Countries Under Stress' (LICUS). For these countries aid should be targeted to address governance and institutional issues as well as help deliver basic services to the people and businesses.

As indicated in Section 5.2 above, there is a broad consensus that for poverty-reduction and rapid growth in Nigeria, three key priority areas should include:

- Improving economic governance
- Creating the enabling environment for rapid private sector-led, competitive, and poverty-reducing growth in the non-oil economy; and
- Targeted interventions to address poverty, including the empowerment of local communities, and sectoral reforms in agriculture, health, education and the environment.

There are immense synergies among the three thematic areas. Without good governance and peace, economic development cannot proceed. But it is difficult to maintain peace and good governance where poverty is pervasive and social exclusion is extreme. And poverty reduction and rapid growth cannot be sustained without a vibrant and competitive private sector, improved agricultural productivity, and social sector transformation.

Thus, the USAID/Nigeria's recently approved Concept paper for the Country Strategic Plan (CSP) for 2004- 2009 is right on the mark by selecting the following four priority areas for strategic engagement:

- good governance and conflict mitigation;
- sustainable agriculture and diversified economic growth;
- social sector service delivery; and
- HIV/AIDS and tuberculosis.

It is expected that the Mission would actively seek opportunities for synergy and integration within these programme areas and also between them. Five key cross-cutting themes that will be addressed in each strategic area have also been identified: food security, gender, HIV/AIDS, conflict, and environment.

Evidently, all these areas have direct impacts on the economy. They remain sufficiently broad to allow for innovation and flexibility. However, to guide operations, USAID needs to articulate even more tightly focused set of intervention areas and criteria for selection of programmes and projects in the respective thematic areas. At the minimum, it is important to decide on the appropriate weights to be assigned to each of the programmatic areas for purposes of funding. A lot of subjective evaluations are involved in the assignment of weights and USAID has made its own subjective allocation of funds to the identified priorities.

More specifically, donor intervention as catalysts for change and better economic management should be more tightly focused, and translating the broad thematic areas into operational items requires some strategic choices to be made. Such choices obviously derive from the perceived urgency of interventions in the areas and hence the likely high payoffs of such interventions in laying the foundations for sustainable economic transformation. Five key priority programme areas are identified for immediate attention in the next few years as follows: a) **policy and process**

reforms and legislations to support economic development; b) **economic governance--** institutional reforms and strengthening of institutions for effective implementation and delivery of basic services for private sector operations; c) **supporting change 'from below'—**institutional support to strengthen independent think-tanks, NGOs, business associations, TV programmes for mass economic education, etc; d) **targeted sectoral interventions—**demonstrative projects in agriculture, networking of Nigerian and American businessmen, benchmarking competitiveness surveys, etc; and e**) State Governments**--- mainstreaming of best practices in public sector financial accounting and management in selected states in the six geo-political zones.

Table 5.2: Proposed Programmatic Areas for Donor Budget Allocations in Nigeria to Promote Sustainable Broad-based Economic Growth

PROGRAMME AREA	Percentage of total budget
6. POLICY AND PROCESS REFORMS AND LEGISLATIONS TO SUPPORT ECONOMIC DEVELOPMENT A. Policy: (Policy development, and public-private dialogues to generate and sustain broad consensus and support for economic policy reforms). ➢ The PRSP or Government's Economic Action Agenda ➢ Trade Policy; Industrial policy; financial sector policy; agricultural policy; Competition and anti-trust policy; ➢ Budget policy and process reforms; monetary and exchange rate policy; etc * An important element of these policy reforms is to also support effective stakeholder participation in policy and institutional reforms[41]. B: Policy Dialogues: Support for continuing public-private policy dialogues to mainstream best practice ideas, share experiences, and sustain support for economic reforms. C: National Assembly: * Set up equivalent of Congressional Budget Office TA Support for key committees in National Assembly for speedy and effective legislations needed to move the economy forward[42]. ➢ Finance and Appropriations Committee ➢ Privatization and Commercialization Committee; etc, and target such legislations as: ➢ Commercial law reform ➢ Energy Reform Bill ➢ Freedom of Information Bill ➢ Federal Competition Bill; etc. ➢ Solid Minerals and Gas Reform bill ➢ Tariff Schedule bill	

[41] Experience has so far shown that one key reason why policies are frequently reversed is the lack of broad based consensus around them. In the past for example, tariff revisions were done in an opaque manner with the relevant government committee and consultants revising the tariff schedules without inputs from the stakeholders. Such tariff schedules have often been beset with hundreds of petitions afterwards, and leading to frequent revisions.

7. **ECONOMIC GOVERNANCE:** INSTITUTIONAL REFORMS AND STRENGTHENING OF INSTITUTIONS FOR EFFECTIVE IMPLEMENTATION AND DELIVERY OF BASIC SERVICES FOR PRIVATE SECTOR OPERATIONS ➢ Federal Competition Commission ➢ Federal Procurement Commission ➢ The Budget Office ➢ Reformed Office of the Chief Economic Advisor for coordination and evaluation ➢ Budget Office in the National Assembly ➢ Federal Office of Statistics ➢ Nigerian Ports Authority ➢ Continuing support to BPE, DMO, BMPI, ICPC, NIPC, etc	
8. SUPPORTING CHANGE 'FROM BELOW' - Institutional support to strengthen the capacity of: - 2- 3 independent think-tanks (economic policy research) - 1 independent agricultural policy think-tank - 3- 5 Business Associations - 2 NGOs demanding transparency, better governance, etc - Economic Journalists' training - Specialized TV programme on Economic policy: for dissemination of research findings, sharing best practice ideas, public education on hard economic policy choices, etc.	
9. TARGETED SECTORAL INTERVENTIONS ➢ Demonstrative projects in agriculture e.g. the Gum Arabic project; farmer to farmer project; etc ➢ Projects targeted at linking Nigerian exporters and businesses and their U.S. counterparts or markets e.g. under the AGOA programme ➢ Annual benchmarking competitiveness surveys--- on institutional and administrative improvements in economic governance, and cost of doing business—to pressure government and private institutions to deliver effective services for competitiveness ➢ SME and Micro finance initiative	
10. STATE GOVERNMENTS: FINANCIAL MANAGEMENT (Strengthening the capacity of state governments' financial accounting and management--- mainstreaming best practices in public sector financial management in selected states in each of the 6 geo-political zones). A start could be made with the selection of one state in each geo-political zone).	
TOTAL	

[42] This is a very important but often neglected area in donor support. Support for the Executive Branch cannot be effective if the enabling legislations are not in place. Two examples would suffice here. Without the Energy Reform Bill being passed by the National Assembly, the privatization of NEPA cannot proceed. Also, the Executive can be assisted to produce the best budget that makes the most economic sense, but experience in the last four years shows that the National Assembly can often enact the Appropriation Acts that bear little resemblance to the original bills submitted by the Executive branch.

Two key points need to be stressed from the above five thematic areas. First, policy and process reforms must be recognized as a key first step in Nigeria's economic transformation. A central message of LICUS initiative is that where the meta-level issues (right policy framework and governance/institutional capacity) are missing or weak, micro-level, sectoral interventions can be either ineffective or unsustainable. It is often difficult for donors to show tangible (measurable) impacts in theses policy and process reform areas. Also, it is a difficult area to make progress especially in an environment with entrenched interest groups and weak institutional capacity. However daunting the challenges of making progress in these areas might seem, it would be a mistake to attempt to by-pass them: they hold the key for sustainable progress. Donors (and USAID particularly) should make continuing efforts to ensure better economic policy framework as well as sectoral policies that should underpin other micro-level sectoral interventions. Without a clear policy direction orchestrated through stakeholder participation to ensure sustainability, it would be difficult to sustain other interventions. The point however is not to freeze all other interventions unless and until the meta-level framework is right but to recognize it as a long-term area of engagement that should attract continuing interest.

The second point is to emphasize two new areas of strategic attention, and to deliberately allocate a certain percentage of the total budget to their realization. These are the empowerment and strengthening of independent institutions as change agents. Until and unless private sector institutions are empowered to demand for good economic governance and efficient service delivery, as well as provide alternative policy scenarios as basis for public-private sector dialogues, the citizens will be ill-equipped to hold the government accountable.

5.4.2: Delivery mechanism: How should aid be packaged and delivered?

This is a very critical but difficult question to answer. The attempt here is to outline some key principles rather than to write down hard and fast rules of engagement. A lot of judgement would be required on the part of the donor programme directors in determining specific project/programme design and budgeting as circumstances and performances change.

5.4.2.a: Targeting persons and/or institutions?

In principle, donors should target and support key change agents within and outside of governments. There are key institutions as outlined in Table 5.2, but there are significant differences among them in terms of the capacity of their leaderships. Ex-ante selectivity in terms of supporting proven reformers rather than hoping that aid or conditionality would create reforms is the new framework for aid delivery. But there is a clear tension here in the sense that certain institutions might be too important to be abandoned, and also given the frequency of change of personnel within government, targeting individuals alone can be tricky. A balance is needed: target greater resources to proven winners, while keeping engaged with critical institutions so as to possibly help to orchestrate change.

5.4.2.b: Aid Coordination and Leveraging of Higher resources

There is a clear need for increased aid coordination in Nigeria. Ideally, the government ought to provide leadership in this coordination, and this is not happening in Nigeria. The Bretton Woods Institutions--- World Bank and the IMF--- provide such leadership in many countries. In Nigeria, depending on the issues involved, the Bank and the Fund may have to cede leadership in the coordination to other donors such as the USAID, DFID, the EU, etc. The underlying point is the need for effective coordination of donor assistance. Such coordination has the advantage of minimizing duplication and waste, and also ensuring higher impacts of aid delivery.

In an ideal coordination world, donors could pool their funds for specific programmes and projects. The tension here is the pressure on individual donors to 'plant their flags' as well as the constraints of individual donor procurement rules. A lot of creativity would be required to make the pooling of funding work better.

An important but largely under-utilized resource of donors is the leveraging of additional resources. For example, the American power and influence could enable USAID to leverage other resources in sectors and activities where it is interested in. As a lead donor agency in providing pure grants--, it is possible that for every one dollar USAID invests, it could leverage additional five dollars. In effect, the $60 million USAID annual budget could leverage additional $300 million.

Partnership and Sustainability: Right from the design stage of each project or programme, donors should incorporate a clear exit strategy. Obviously, certain programmes or projects should have just a short-term, once and-for-all implementation. Examples of such might include the privatization project which might cease when the privatization programme ends . Some others are longer-term in nature. One possibility is for donors to target counterpart funding from government, other donors, and the private sector. For sustainability therefore, a key ingredient is effective partnership with local and international institutions and donor agencies.

A key element in the sustainability of the technical assistance programme is the conscious effort to domesticate such assistance. To be effective, such a domestication process should target institutional strengthening rather than just ad-hoc involvement of free-lance local experts. For example, there could be a deliberate policy to require foreign consulting firms to bid for technical assistance contracts in partnership with local consulting or research institutions. This way, the continuing interaction of foreign and Nigerian institutions and experts would buoy up local capacity which resides not only in the individuals but also in the collaborating institutions. Thus, individual consultants can come and go, but institutions would remain.

5.4.2.c: Demonstrative projects approach

Ultimately, aid from most donors is dominantly technical assistance. Even if donors deploys all their budget allocation to only one sector, such a budget might still be far smaller than the total public sector spending in the particular sector. Thus, as a technical assistance programme, donors should aim to leverage their vintage position to demonstrate best practice ideas on how to implement certain projects. Whether it is in the micro finance project, specific agricultural project, or delivery of public services, donors cannot be an effective or sustainable substitute for local resources or efforts. While insisting on counterpart local institutions and resources, donors' comparative advantage will be the higher technical know-how on 'how to do things better' which derives from their global experiences. In all cases, it will be necessary to tailor specific projects within the country's overall development strategy in the sector by show-casing examples of how to implement specific projects and programmes.

5.4.2.d: Re-thinking the Results Orientation and Measures of Performance

A common problem in aid delivery is the results-orientation and measures of performance. Often there is the problem of attribution. Most aid programmes target poverty reduction. But several factors affect poverty, and there are dozens of initiatives targeting the same outcomes. In the bid to 'plant flags' and claim any observed successes, individual donors often bunch together in 'high performing sectors' and neglect areas where impacts are difficult to measure. For example, it is tempting to cluster around projects that have high visibility--- schools built; hospitals built; etc, and perhaps neglect fundamental issues of institutional development and strengthening which are long-term and impacts difficult to measure. There is thus the conflict between the short run pressure to show results versus considerations for long-run sustainability and change. How the donors overcome this glaring pressure point would require creativity in the choices made and the delivery mechanism.

A possible re-orientation is to see outcomes within the context of **'team spirit'**, that is, **partnership**. If GDP grows faster or if overall poverty incidence drops, it is the result of effective development partnership. It would be unrealistic or incredible for any one donor agency or partner (not even the Federal Government of Nigeria in a federal structure) to effectively attribute the results to its own specific interventions.

Furthermore, it is possible to think of a different way of measuring aid impact through strengthened institutions, policy studies and better policy choices. For example, if $5 million is spent to prevent a costly policy error or programme design that costs the country say $100 million, then the impact of the $5 million is actually the alternative impacts of better spent $100 million (which could have been wasted). If donor assistance had prevented the commencement of the Ajaokuta Steel Mill, and the equivalent of billions of dollars already spent on it had been applied elsewhere, that could be seen as the impact of the technical assistance. In Nigeria, given the very high waste or inefficiency, or very low value for money, donor assistance could significantly help improve the use of Nigeria's money by funding such agencies as the procurement commission, budget monitoring and price intelligence, federal competition commission, etc--- all geared towards better economic governance, transparency and accountability

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- **Appendices:**

Table 1: Federal Government's Major Targets on the Economy versus Actual Performance , 1999-2003.

	1999	Target: 2003	Outcome 2002
GDP growth Rate	2.4%	10.0%	3.2%
Inflation Rate	13%	Single digit	15%
Gainfully employed Labour force – Male and female	50%	70%	Probably worsened
Population with access to safe water	40%	60%	Probably worsened
Household access to electricity	34%	60%	Little improvement
Functional telephone lines per 1000 persons	4	30	Little improvement
Population of school age children in school	50%	90%	Little
Population literacy level	57%	80%	Hardly any change
Nutrition level (daily calorie)	2120	2500	Hardly any change
Other basic human needs (level of satisfaction)	Low	Medium/High	Low
Reduction in child malnutrition	46%	20%	No data
Infant Mortality	78 per 1000	50 per 1000	No data
Maternal mortality	800 per 100, 000	400 per 100,000	No data
Promotion of women's participation in informal sector and food processing and subsistence agriculture	Invisible	Recognition and inclusion in the national accounting system of the economy	None

Sources: Nigeria Economic Policy, 1999-2003, pp. 10-11 (see Soludo, 2001)

Table 2: Nigeria in a Global Context

	World	Nigeria	Nigeria's Rank in the World (out of about 200 countries)
Population (in millions 1999)	5,975	124	10
Gross National Product (US$ billion 1999)	29,232	37.0	54
Per capita GNP (US$ 1999)	4,890	319	179
GNP measured in PPP$ (US$ billion 1999)	38,804	92.2	49
GNP per capita measured in PPP$ 1999	6,490	744	193
Human Development Index (2000)	0.712	0.439	151 out of 174 countries
Gender-related development Index (1998)	0.706	0.425	124

Source: UNDP, 2001, Human Development Report: Nigeria 2000/2001 Millennium Edition

Table 3: Human Development Index Components: Nigeria in Regional and Global Contexts, 2000

	HDI value	Life Expectancy at birth (years)	Life Expectancy Index	Adult literacy rate % age 15 and above	Combined primary, secondary and tertiary gross enrollment ratio (%)	Education Index	GDP per capita PPP (US$)	GDP Index
Nigeria	0.439	50.1	0.42	61.1	43	0.55	795	0.35
Sub-Saharan Africa	0.464	48.9	0.40	58.5	42	0.53	1,607	0.46
South East Asia and the Pacific	0.698	66.3	0.69	88.2	68	0.81	2,234	0.58
Arab States	0.635	66.0	0.68	59.7	60	0.60	4,140	0.62
Latin America and the Carribbean	0.758	69.7	0.74	87.7	74	0.83	6,510	0.70
Eastern Europe and the CIS	0.777	68.9	0.73	98.6	76	0.91	6,200	0.69
OECD	0.893	76.4	0.86	97.4	86	0.94	20,357	0.89
World	0.712	66.9	0.70	78.8	64	0.74	6,526	0.70

Source: UNDP, 2001, Human Development Report: Nigeria 2000/2001 Millennium Edition

Table 4: Selected Macroeconomic Indicators

	1997	1998	1999	2000	2001	2002 /1
Domestic Output and prices						
Real GDP Growth (Growth rate %)	3.2	2.4	2.8	3.8	3.9	-0.9
Oil sector	1.4	-4.9	-7.5	11.2	-4	
Non-oil sector	3.4	3.7	4.2	3	4.9	5.3
Oil Production (million barrels per day)	2.3	2.1	2	2.2	2.3	1.89
Manufacturing Capacity Utilization	30.4	32.4	35.9	36.1	39.6	43.0
Gross National Savings (% of GDP)	13.9	9.2	18.3	28.3	26.2	22.1
Gross Fixed Capital Formation (% of GDP)	5.4	5.3	4.9	5.4	6.3	5.5
Inflation Rate (%)	8.5	10	6.6	14.5	18.9	13.8
Gross domestic investment (percent of GDP)	-	-	*21.6*	*17.7*	*20.1*	*23.3*
Federal Government Finance (% of GDP)						
Overall Fiscal balance	-0.2	-4.8	-8.9	-2.1	-4	-5.8
Primary Balance	2.1	-2.3	-1.5	0.1	-1.2	1.2
Retained Revenue	14.9	12.8	20.7	12.3	14.5	40.2^
Total Expenditure	15.1	17.6	29.7	14.5	18.5	46*
Domestic Debt Stock	12.5	19.4	24.9	18.6	18.5	25
External Debt Stock	21	22.9	80.7	64	57.9	58
Gross domestic debt			23.6	21	21.4	25
Net domestic assets 2/			17.2	-25.4	12.7	32
Discount rate (percent; end of period) 3/			*18*	*14*	*20.5*	*18.5*
Money and Credit (Growth rate %)						
Net Domestic Credit	-2.8	46.8	30.1	-25.3	75.8	
Net Credit to Government	-53.5	144.9	32	-170.1	79.7	22.4
Credit to Private Sector	23.9	27.4	29.2	30.9	43.5	5.9**
Narrow Money (M1)	18.2	20.5	18	62.2	28.1	
Broad Money (M2)	16.9	23.3	31.7	48.1	27	19.4
External Sector						
Overall Balance (% of GDP)	0.04	-7.7	-9.7	6.3	0.5	
Current Account Balance (% of GDP)	9.1	-11.5	1.2	14.2	4.8	-8.6
Capital Account Balance (% of GDP)	9	4.1	-10.7	-7.7	-4.1	
External Reserves (US $ Million)	7581.2	7100	5450	9910.4	10455.	

					8	
Average Crude Oil Price (US $/barrel)	19.4	12.9	18	28.6	24.5	
Average Official Exchange Rate (N/$)	21.9	21.9	na	na	na	127.6^^
Average AFEM Rate (N/$)	82	84.4	91.8	na	na	
Average IFEM Rate (N/$)	na	na	96.1	102.1	111.9	
Average Parallel Market Exchange Rate (N/$)	85	87.9	99.2	111.1	132.6	137
Average Bureau de Change Exchange Rate (N/$)	85.1	88.1	99.3	111.1	133	
Real effective exchange rate (end of period '-' indicates depreciation) 4/			*-9.6*	*12.2*	*24.7*	*-9.1*
Social Indicators						
GDP per capita (N)	1048.4	1041	1038.8	1046.8	1062.5	
Population Growth Rate (%)	3	3	3	3	3.1	2.9
Life Expectancy at Birth (Years)	53	54	54	54	54	54
Adult Literacy Rate (%)	57	57	57	57	57	57
Human Development Index	0.4	0.4	0.4	0.4	0.4	0.4

/1 figures obtained from IMF databank which includes IMF staff estimates
* includes net lending
** Defined to include the rest of the economy
^ Represents total revenue and grants for 2002 and not just retained revenue
^^ figure based on the official DAS exchange rate
Sources: Central Bank of Nigeria, Annual Bank and Statement of Account; IMF staff estimates

Table 5a: Sectoral GDP in Nigeria

Years	AVA (%)	MVA (%)	Industry /GDP	Build&Cons /GDP (%)	Trade/ GDP (%)	Total Serv/ GDP (%)	Non-Oil/ Total GDP (%)	Oil/Total GDP (%)
1981-85	37.3	9.2	24.1	3.4	13.5	21.8	86.1	13.9
1986-90	41.1	8.3	21.5	2.0	13.4	22.1	87.0	13.0
1991-95	38.3	7.5	20.8	2.0	12.5	26.5	87.0	13.0

1996-98	38.8	6.2	19.4	2.0	11.7	27.5	87.1	12.9
1999-2001	40.9	6.0	17.2	2.2	11.5	28.2	89.0	11.0

Source: CBN Report

Table 5b: GDP at 1984 Factor Cost (Sectoral shares (%))

Activity Sector	1997	1998	1999	2000	2001
Agriculture/GDP (%)	39.25	40.06	40.99	40.61	41.06
Crop Prod/Agric (%)	79.74	79.78	79.81	79.87	79.89
Livestock/Agric (%)	13.28	13.02	12.73	12.66	12.51
Forestry/Agric (%)	3.17	3.05	2.94	2.90	2.82
Fishing/Agric (%)	3.82	4.15	4.52	4.57	4.78
Industry/Total GDP (%)	19.50	18.18	17.02	17.77	16.94
Crude Pet/Industry (%)	66.00	65.66	63.08	64.69	62.69
Mining &Quarrying/Industry (%)	1.58	1.75	1.87	1.82	2.07
Manufacturing/Industry (%)	32.42	32.59	35.05	33.49	35.23
Manufacturing/Total GDP (%)	6.32	5.92	5.97	5.95	5.97
Build & Const/Total GDP	2.02	2.09	2.12	2.11	2.35
Trade/GDP (%)	11.71	11.77	11.73	11.47	11.37
Services/GDP (%)	27.51	27.91	28.15	28.03	28.29
Transport/Services (%)	11.29	11.23	11.13	11.09	11.03
Communication/Services (%)	1.06	1.08	1.13	1.09	1.33
Utilities/Services (%)	2.05	1.90	1.87	1.86	2.17
Hotel/Services (%)	1.75	1.74	1.74	1.74	1.75
Fin&Ins/Services (%)	33.93	34.23	34.14	34.33	34.21
Real Estate/Services (%)	1.06	1.08	1.07	1.09	1.07
Housing/Services (%)	8.84	9.01	8.99	9.05	9.05
Prod of Govt Services/Services (%)	35.48	34.45	33.83	33.38	32.63

Comm etc/Services (%)	4.55	5.27	6.09	6.36	6.77
Total GDP (N billions)	110.13	112.95	116.14	120.64	125.35
Non Oil GDP (N billions)	95.96	99.47	103.67	106.77	112.04

Source: CBN Annual Reports and Statement of Accounts 2001

Table 6: Nigeria's External Debt Outstanding (1983—2001)(US$ Million)

NIGERIA'S EXTERNAL DEBT OUTSTANDING (1983-2001) IN US$ MILLION																			
CREDITOR CATEGORY	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
A:OFFICIAL																			
1.PARIS CLUB	5,390 00	5,811 00	7,833 00	10,228 00	12,589 0 0	14,400 00	15,871 00	17,171 00	17,793 00	16,454 00	18,160 50	18,334 32	21,669 60	19,091 00	18,980 00	20,829 93	20,507 77	21,480 01	22,092 93
2.MULTILATERAL	884	1,097 00	1,317 00	1,887 00	2,985 00	2,838 00	3,171 00	3,842 00	4,016 00	4,516 00	3,694 70	4,402 27	4,411 00	4,665 00	4,372 68	4,237 00	3,933 32	3,460 00	2,797 87
3.OTHERS (NONPAARIS CLUB)	1,526 00	1,318 00	1,939 00	2,873 00	2,032 00	2,685 00	2,311 00	1,675 00	1,454 00	1,226 10	1,647 00	1,456 31	1,311 20	121	79 19	65 77	69 34	66	121 21
SUB-TOTAL	7,800 00	8,226 00	1,089 00	14,988 00	17,605 0 0	19,923 00	21,363 00	22,688 00	23,263 00	22,198 00	23,502 00	24,192 90	27,391 00	23,877 00	23,432 26	25,132 70	24,510 43	25,006 01	25,012 01
B: PRIVATE																			
1.Promissory	3,702 00	4,125 00	4,255 00	4,496 00	4,850 00	4,810	4,553 00	4,550 00	4,479 00	3,246 00	3,159 90	3,178 17	3,148 00	2,140 00	1,612 54	1,597 84	1,486 77	1,446 70	1,291 78
2.Banks (London Club)	6,263 00	4,996 00	3,560 00	6,088 00	5,860 00	5,960 00	5,680 00	5,861 00	5,988 00	2,120 00	2,055 80	2,057 79	2,045 00	2,043 00	2,043 00	2,043 00	2,043 21	2,043 27	2,043 21
SUB-TOTAL	9,965 00	9,121 00	7,815 00	10,586 00	10,710 0 0	10,770 00	10,233 00	10,411 00	10,467 00	5,366 00	5,215 70	5,235 96	5,193 00	4,183 00	3,655 54	3,640 84	3,529 98	3,529 98	3,334 99
GRAND TOTAL	17,765 00	17,347 00	8,904 00	25,574 00	28,315 0 0	30,693 00	31,596 00	33,099 00	33,730 00	27,564 00	28,717 70	29,428 86	32,584 00	28,060 00	27,087 80	28,773 54	28,040 41	28,535 99	28,347 00
PERCENTAGE SHARE OF VARIOUS SEGMENTS OFNIGERIA'S EXTERNAL DEBT OUTSTANDING																			
CREDITOR CATEGORY	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
A:OFFICIAL																			
1.PARIS CLUB	30.34	33.5	41.44	39.99	44.46	46.92	50.25	51.86	52.75	59.69	63.24	62.3	66.5	68.04	70.07	72.39	73.14	75.38	77 94
2.MULTILATERAL	4.96	6.32	6.97	7.38	10.54	9.25	10.04	11.61	11.91	16.39	12.87	14.96	13.54	16.63	16.14	14.73	14.03	12.14	9.87
3.OTHERS (NONPAARIS CLUB)	8.59	7.6	10.26	11.23	7.16	8.75	7.32	5.06	4.31	4.45	5.74	4.95	4.02	0.43	0.29	0.23	0.25	0.23	0.43
SUB-TOTAL	43.89	47.42	58.67	58.6	62.16	64.92	67.61	68.53	68.97	80.53	81.85	82.21	84.06	85.1	86.5	87.35	87.42	87.75	88.24
B. Private	20.84	23.78	22.51	17.59	17.13	15.67	14.1	13.75	13.28	11.78	11.00	10.80	9.66	7.63	5.95	5.55	5.30	5.08	4.56
1. Promissory	32.25	28.80	18.83	23.81	20.70	19.42	17.98	17.71	17.75	7.69	7.16	6.99	6.28	7.28	7.54	7.10	7.29	7.17	7.21
2. Banks (London Club)	56.09	52.58	41.34	41.39	37.82	35.09	32.40	31.45	31.03	19.47	18.16	17.79	15.94	14.91	13.50	12.65	12.59	12.25	11.76
GRAND TOTAL	100.00	100.00	100.0 0	100.00	100.0 0	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Source: Debt Management Office, The Presidency Abuja																			

Table 7: Nigeria's External Debt Service Payments (1985—2001) (US$ Million)

CREDITOR CATEGORY	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	TOTAL
A:OFFICIAL																		
1.PARIS CLUB	410.9	182.6	186.9	531.8	246.6	1672.9	1506.7	536	234.6	59.2	271.8	359.7	306.1	228.54	644.49	812.67	1273.62	9,465.12
2.MULTILATERAL	98.2	231.6	244.3	460.7	514.7	640.1	733.4	810	643.2	758.9	826.9	814.4	800.2	680.23	659.17	623.23	491.48	10,030.71
3.OTHERS (NONPAARIS CLUB)	10.1	7.5	0.5	4.7	128.8	453.3	502.2	141.9	442.8	626.6	109	336.4	127.7	19.77	34.8	1.52	33.81	2,981.40
SUB-TOTAL	519.2	421.7	431.7	997.2	890.1	2766.3	2742.3	1487.9	1320.6	1444.7	1207.7	1510.5	1234	928.54	1338.46	1437.42	1798.91	22,477.23
B: PRIVATE																		
1.Promissory	0.00	0.00	0.00	0.00	248.3	340.9	376.6	267.3	256.1	254.8	251.9	238.4	226.8	216.29	258.7	149.52	195.18	3280.79
2.Banks (London Club)	981.5	856.9	308.3	584.7	1029.9	465.2	316.1	637.4	195.8	143.5	161	127.7	35.8	127.71	127.74	129.07	134.08	6362.4
SUB-TOTAL	981.5	856.9	308.3	584.7	1278.2	806.1	692.7	904.7	451.9	398.3	412.9	366.1	262.6	344	386.44	278.59	329.26	9643.19
GRAND TOTAL	1500.7	1278.6	740	1581.9	2168.3	3572.4	3435	2392.6	1772.5	1843	1620.6	1876.6	1496.6	1272.54	1724.9	1716.01	2128.17	32120.42

PERCENTAGE SHARE OF VARIOUS SEGMENTS OFNIGERIA'S EXTERNAL DEBT SERVICE PAYMENTS

CREDITOR CATEGORY	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	TOTAL
A:OFFICIAL																		
1.PARIS CLUB	27.38	14.28	25.26	33.62	11.37	46.83	43.86	22.4	13.24	3.21	16.77	19.17	20.45	17.96	37.36	47.36	59.85	29.5
2.MULTILATERAL	-	18.11	33.01	29.12	23.74	17.92	21.35	33.85	36.29	41.18	51.02	43.4	53.47	53.45	38.21	36.32	23.09	31.2
3.OTHERS (NONPAARIS CLUB)	0.67	0.59	0.07	0.3	5.94	12.69	14.62	5.93	24.98	34	6.73	17.93	8.53	1.55	2.02	0.09	1.59	9.3
SUB-TOTAL	28.05	32.98	58.34	63.04	41.05	77.44	79.83	62.18	74.51	78.39	74.52	80.5	82.45	72.96	77.59	83.77	84.53	70
B: PRIVATE																		
1.Promissory	0.00	0.00	0.00	0.00	11.45	9.54	10.96	11.17	14.45	13.83	15.54	12.7	15.15	17	15	8.71	9.17	10.2
2.Banks (London Club)	65.4	67.02	41.66	36.96	47.5	13.02	9.2	26.64	11.05	7.79	9.93	6.8	2.39	10.04	7.41	7.52	6.3	19.8
SUB-TOTAL	65.4	67.02	41.66	36.96	58.95	22.56	20.16	37.81	25.5	21.62	25.47	19.5	17.54	27.04	22.41	16.23	15.47	30
GRAND TOTAL	**93.45**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Sources: Central Bank of Nigeria and Debt Management Office, The presidency Abuja

Table 8: External Debt Service Projections (2002—2011)(US$ Million)

External Debt Service Projections 2002 to 2011										
Category of Debt	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Paris Club										
(a) Agreement III	255.8	243.9	232.3	220.6	209	4.1	3.9	3.8	3.6	3.5
(b) Agreement IV										
i. Reported Debt ($2.76b)	411.59	380.29	365.11	349.93	334.75	319.57	304.39	253.33	-	-
ii. Balance of Arrears										
(17,150.43 less 905.3 for post cut-off portion)	1,042.39	893.48	893.48	856.96	873.74	854.57	828.98	796.45	756.74	709.5
iii. Consolidated Debts (Maturities)										
1.8.2000-31.7.2001	19.06	14.98	14.98	14.87	14.66	14.33	13.9	13.35	12.68	11.89
iv. Consolidated Interest										
(1.8.00-31.7.01 on arrears of 19,322.55)	277.83	256.39	244.7	233.01	221.32	-	-	-	-	-
v. Rescheduled Post Cut-Off										
(905,30-144.85)	183.79	211.43	219.32	226.24	-	-	-	-	-	-
©Non-Previously rescheduled	10.38	9.3	8.4	7.8	7.5	7.3	7.1	6.9	6.7	6.4
(d) Non-Rescheduled Post Cut-Off	67.53	64.3	27.9	26.3	25.8	23.3	22.8	21.1	20.3	19.4
SUB TOTAL [1a-1d]	2,268.37	2,074.07	2,006.19	1,935.71	1,686.77	1,223.17	1,181.07	1,094.93	800.02	750.71
Multilateral	478.92	467.8	448.2	426.6	386.2	328.3	303.5	192	146.1	103.7
London Club-Par Bonds	127.7	127.7	127.7	127.7	127.7	127.7	127.7	127.7	127.7	127.7
Promissory Notes	195.03	195.03	195.03	195.03	195.03	195.03	195.03	195.03	48.76	-
Non-Paris Club Creditors	32.9	15.1	14.9	11	10.4	9.9	9.3	8.8	8.2	3.9
Total [1+2+3+4+5]	3,102.92	2,879.70	2,792.02	2,696.04	2,406.10	1,884.10	1,816.60	1,618.46	1,130.78	986.01
Source: Debt Management Office, The Presidency Abuja										

Table 9: Federal and State Government Debt:
Summary of Amounts Paid (1999- 2001) & Debt Service Requirements in 2002
(US Dollars)

Federal & State Government Debt						
Summary of Amounts Paid (1999-2001) & Debt Service Requirement in 2002						
(Revised after Reconciliation)						
S/No	States	Amount Paid (1999-2001	Amount Outstanding as at 31-12-2001	Amount Due in 2002	% Share of Total	Proportionate Share in 2002 Budget
1	Abia	80,691,026.10	608,888,961.16	58,148,14.16	1.89	28,396,825.99
2	Adamawa	13,361,324.67	258,228,126.18	24,169,606.18	0.79	11,803,328.30
3	Akwa-Ibom	30,025,387.28	138,713,607.71	15,820,306.05	0.52	7,725,912.65
4	Anambra	41,485,237.57	120,401,775.48	16,190,829.87	0.53	7,906,859.52

5	Bauchi	40,975,756.94	88,419,635.65	12,247,292.19	0.41	5,981,016.38
6	Bayelsa	11,505,468.13	144,809,904.90	12,340,696.35	0.4	6,647,324.12
7	Benue	25,151,092.15	255,832,547.93	24,076,429.79	0.78	11,757,825.22
8	Borno	21,340,207.15	139,846,004.29	13,611,686.65	0.44	6,647,324.12
9	Cross River	19,492,481.15	70,189,274.48	7,906,405.23	0.26	3,861,126.07
10	Delta	26,231,359.08	133,183,310.95	14,424,142.12	0.47	7,044,090.15
11	Ebonyi	25,377,742.96	165,837,521.53	20,385,252.60	0.66	9,955,224.40
12	Edo	39,222,905.60	293,490,328.61	28,553,453.24	0.93	13,944,198.35
13	Ekiti	23,107,727.97	162,341,135.35	12,441,121.07	0.41	6,075,673.52
14	Enugu	52,010,742.06	293,103,960.57	33,975,691.69	1.11	16,592,171.18
15	Gombe	15,875,865.13	99,634,844.57	11,545,884.87	0.38	5,638,481.18
16	Imo	59,069,037.07	408,618,175.11	36,903,600.47	1.2	18,022,027.68
17	Jigawa	15,200,404.90	69,014,216.95	8,456,062.82	0.28	4,129,553.66
18	Kaduna	14,993,465.36	62,135,587.07	2,785,913.02	0.09	1,360,512.28
19	Kano	21,434,690.38	92,694,376.16	8,994,390.71	0.29	4,392,448.33
20	Katsina	9,266,587.30	60,799,640.87	2,467,596.09	0.08	1,205,060.87
21	Kebbi	15,347,827.41	33,344,574.14	6,899,786.16	0.22	3,369,539.44
22	Kogi	21,540,065.37	341,373,096.16	34,081,796.94	1.11	16,643,988.13
23	Kwara	23,463,178.58	333,514,801.31	31,413,871.78	1.02	15,341,095.71
24	Lagos	136,586,502.66	421,915,983.95	52,073,918.58	1.7	25,430,516.00
25	Nassarawa	39,588,594.38	94,338,190.86	10,709,535.56	0.35	5,230,046.50
26	Niger	47,089,723.80	443,928,914.89	53,342,945.17	1.74	26,050,250.45
27	Ogun	22,751,720.20	221,078,304.08	22,675,693.79	0.74	11,073,769.93
28	Ondo	26,178,333.83	119,995,409.52	11,408,043.52	0.37	5,571,165.78
29	Osun	16,483,489.84	366,182,706.47	26,047,828.89	0.85	12,720,566.22
30	Oyo	52,168,492.81	147,079,586.58	17,444,071.48	0.57	8,518,885.29
31	Plateau	58,977,630.19	504,994,312.16	45,970,051.22	1.5	22,449,666.84
32	Rivers	17,689,761.84	171,847,769.70	16,098,171.59	0.52	7,861,609.45
33	Sokoto	42,478,858.85	189,632,813.38	15,703,771.76	0.51	7,669,002.64
34	Taraba	16,323,555.03	142,409,141,56	15,185,810.19	0.49	7,416,053.94
35	Yobe	6,190,580.40	42,565,378.30	3,996,121,74	0.13	1,951,522.77
36	Zamfara	11,625,702.17	24,886,850.89	4,266,249.20	0.14	2,083,440.64
	Total for States	1,140,302,526.31	7,265,270,770.46	732,762,042.75	23.86	357,847,409.27
	Fed. Govt.	4,428,777,473.69	21,081,729,229.54	2,338,779,166.30	76.14	1,142,152,590.73
	TOTAL	5,569,080,000.00	28,347,000,000.00	3,071,541,209.05	100.00	1,500,000,000.00
	Notes: Figures are provisional					
	Source: Debt Management Office Abuja					
	Subject to ratification by the Sub-Committee of The Revenue Mobilization and Fiscal Commission					

Table 10: Structural Reforms And Policy Implementation

	1986	1987	1988	1989	1990	1991	1992	1993	1994
Structural/Policy Reforms									
Foreign exchange market[1]	√	√		√	√		√	×	×
Import liberalization[2]	√	√	×	×	×	×			
Export promotion[3]	√	×	√×	×					
Debt conversion			√				√		
Prices	√							√	√
Privatization/commercialization			√						
Interest rates[4]	√	√		×		×	√		×
Credit guidance	√	√					√		
Financial sector					√	√		√	
Budget (tax/expenditure)									
Policy Implementation									
Inflation	–	+	+	+	-	+	+	+	–
Fiscal deficit/GDP	+	+	+	-	-	+	+	+	-
Petroleum subsidy		*	*	*	*	*	*	*	*
Fertilizer subsidy	*	*	*	*	*	*	*	*	*
Extra budgetary expenditures	–	+	+	+	+	+	+	+	-
Growth in broad money	-	+	+	-	+	-	+	-	-
Real effective exchange rate (+ Appreciate)	-	-	+	-	-	-	-	+	+
Official and parallel exchange rate spread	-	-	+	+	-	+	-	+	+
External current account	-	+	-	+	+	-	-	-	-

Key: √ indicates reform, × indicates reversal of reform; change relative to previous year where, - indicates a decline, + indicates an increase; * indicates variable was positive; – indicates figure is zero, or that the item does not exist.

[1]Prorate allocation of foreign exchange by CBN in 1993, fixed exchange rate in 1994

[2]During 1988-91 higher tariffs or import bans were introduced

[3]In 1987 export bans on grains were introduced and bans were extended to other commodities in 1988 and1989. In 1989 the rediscount/refinancing facility for exports was introduced by the CBN

[4]On November 10, 1989, the CBN introduced a maximum interest rate spread between saving and prime lending rates, the prime and the highest lending rates, and the inter-bank and prime and prime lending rates. Ceilings were imposed on maximum lending rates at the beginning of 1991 and 1994.

Source: Moser et al, Nigeria Experience with Structural Adjustment (1997) IMF p. 13

Table 11: Number of financial institutions, 1997-2001

	1997	1998	1999	2000	2001
Total Deposit banks	1131	1106	1105	1105	1105
Commercial banks	64	51	51	51	51
Merchant banks	51	39	38	38	38
Community banks	1015	1015	1015	1015	1015
People's Bank of Nigeria	1	1	1	1	1
Total other financial institutions	802	905	905	1805	1805
Foreign exchange bureaus	250	244	244	905	905
Finance companies	279	279	279	244	244
Deposit Insurance corporation	1	1	1	279	279
Unit trusts	11	11	11	1	1
Stockbrokers	140	170	170	11	11
Federal Mortgage bank	1	1	1	1	1
Primary mortgage institutions	115	194	194	170	170
Discount Houses	5	5	5	5	5
Memorandum items					
Total number of branches	2477	2220	2220	2220	2220
Commercial bank branches	2330	2107	2107	2188	2188
Rural branches	615	557	557	722	722
Urban branches	1715	1550	1550	1466	1466
Merchant bank branches	147	113	113	113	113
People's Bank of Nigeria	275	275	275	275	275
Insurance Companies	188	187	187	187	187

Source: Central Bank of Nigeria

Table 12: Nigeria: Frequently Used Indicators Of Stability And Vulnerability In The Financial Sector, 1998-2002 (In Percent Of GDP Unless Otherwise Indicated)

Indicators	1998	1999	2000	2001	Projected 2002	Latest 2002	1/
Credit	11.0	18.7	11.0	17.5	22.9	21.5	*
Money (M2; percent change over preceding December)	24.9	30.7	48.2	27.2	19.4	16.1	*
Sector credit (percent change over preceding year)	17.9	22.3	30.1	40.9	9.4	14.6	*
Month treasury bill rate (in percent, end of period)	13.0	17.0	13.0	20.5	-	14.5	***
Money banks prime lending rate (in percent, average)	18.5	19.0	21.3	26.0	-	26.2	***
Money banks maximum lending rate (in percent, average)	-	-	26.7	31.2	-	31.8	***
Month deposit rate (in percent; end of period)	10.6	12.7	10.5	17.9	-	14.9	***
Price index (in percent; end of period)	11.9	0.2	14.5	16.5	13.8	12.3	*
Sector total assets (in billions)	761	1108	1627	2011	-	-	
Roaming loans as percentage of total assets	19.4	25.4	22.6	16.0	-	-	
Assets of commercial banks (in billions of US$)	1.4	1.6	1.9	2.5	2.5	2.5	*
Total reserve (in billions of US$)	7.1	5.4	9.4	10.4	7.2	8.0	*
Bank foreign currency position (in billions of US$, end of period)	5.0	5.0	8.7	9.1	6.2	5.4	*
Reserves in months of imports of goods and non factor services	7.4	4.4	7.1	7.3	4.6	-	
Reserve money in reserves	40.4	53.6	41.2	48.4	58.7	73.1	*
Broad money in reserves	343.3	130.0	100.0	111.3	167.1	146.4	*
Exchange Rate (per US$; average)	21.9	90.6	74.7	72.6	74.0	-	
Rate (per US$; end of period)	86.0	98.7	110.1	113.5	130.0	127.6	**
Market exchange rate premium (in percent; average)	-	7.2	9.0	18.3	-	13.5	**
Effective exchange rate depreciation (-) (percent change over preceding year)	1.7	-51.6	12.2	24.7	-	-9.1	***
Market Indicators							
Market capitalization (end of period)	6.1	5.1	4.0	3.6	-	-	
Market capitalization (percentage change; average)	14.4	3.0	77.5	36.5	-	1.5	****

Currency debt rating (moody's)	NR	NR	NR	NR	NR	NR	
Inst US dollar benchmark bond (basis points, end of period)	-	-	1236	1584	2478	-	

Source: Central Bank of Nigeria (CBN); Bloomberg: E$MDB; and Fund staff estimates
*Observations are as follows: *: August 2002, **: October 2002, *** July 2002, **** June 2002.*

Standing stock of the government debt, inel. Treasury bills and development stocks. Ninety-one day treasury bills account for 57 percent of public debt
Does not include banks loans to the federal government or state and local governments.
Foreign assts plus foreign exchange (FX) credit to government and banks', less deposit money banks FX deposits at the CBN. Does not position arising from off-balance sheet operations.
Naira was devalued at end December 1998 as the authorities undertook exchange market reforms.

Table 13: Federation account operations, 1997-2001
(Millions of Naira and Percentages)

In millions of Naira					
	1997	1998	1999	2000	2001
Total Revenue	200540	137768	454239	855051	1096418
Petroleum revenue	111540	45793	326027	740384	857201
Foreign generated oil revenue (net)	84540	23988	257212	947163	735656
Gross government export proceeds	167800	102399	498217	525073	934284
Royalty and petroleum profit tax	93840	44050	171411	-731852	639234
First charges/dedicated accounts	-177100	-122461	-412416	114667	-837862
Domestically generated oil revenue (net)	27000	21806	68816	114667	121545
Petroleum naira revenue	65000	56584	68816	0	121545
Transfer to petroleum Special Trust Fund	38000	34778	0	152534	0
Petroleum/Total Revenue (%)	55.62	33.24	71.77	86.59	78.18
Non petroleum revenue	89000	91975	128212	51028	239217
Non petroleum/Total Revenue (%)	44.38	66.76	28.23	5.97	21.82
Company Income tax	26000	33500	44985	101506	68660
Company income tax/Non petroleum Rev (%)	29.21	36.42	35.09	198.92	28.70
Customs and excise	63000	58475	83226	n.a	170557
Customs and excise/Non petroleum Rev (%)	70.79	63.58	64.91	n.a	71.30
Total expenditure	194380	132525	436599	1020954	1212101
Deductions for fertilizer subsidy	0	0	0	0	0
Transfers to stabilisation account	0	0	0	0	0
Federation account distribution	194380	132525	436599	1020954	1212101
Federal government	97262	67157	211751	514969	530658
Fed govt/Total Expenditure (%)	50.04	50.67	48.50	50.44	43.78

State government	48130	33232	104784	256501	391327
State govt/Total Expenditure (%)	24.76	25.08	24.00	25.12	32.29
Local government	40108	27693	87320	213751	245487
Local govt/Total Expenditure (%)	20.63	20.90	20.00	20.94	20.25
Special funds	8881	4443	32745	35733	44629
Special funds/Total Expenditure (%)	4.57	3.35	7.50	3.50	3.68
Federal capital territory	2005	1385	4366	10210	12780
FCT/Total expenditure (%)	1.03	1.05	1.00	1.00	1.05
Ecology	4011	2769	8732	20419	25491
Statutory stabilisation (0.5 percent)	1003	692	2183	5105	6358
Derivation (2 percent)	465	-101	8732	-	-
Mineral producing areas (2 percent)	1396	-303	8732	-	-
Overall balance	6160	5243	17640	-13369	-115683
Financing	-6160	-5243	-17640	13369	115683
Memorandum items					
First charges/dedicated accounts	177100	122461	412416	731852	837862
First charges	177100	122461	412416	686786	759481
JVC cash calls	45100	54991	183339	260000	391990
NNPC priority projects	8140	16870	23468	24750	38074
External debt service	44000	37400	177610	175034	232192
National priority projects	16280	13200	0	0	0
Special reserve/excess proceeds	63580	0	28000	227003	97225
Dedicated accounts	-	-	-	-	-
13 percent natural resource derivation	-	-	-	45066	78381
Sources: Federal Ministry of Finance and IMF staff estimates					

Table 14: Selected Social and Demographic Indicators in Comparative Perspectives

Nigeria Selected Social and Demographic Indicators				
	Nigeria		Sub-Saharan Countries	Low-Income Countries
	Latest Single Year		Latest Single Year	
	1980-85	1994-2000	1994-2000	
Income, Population, Poverty and Income distribution				
Income				
Gross National Income Per capita (US$)	360	260	470	410
Gross National Income Per capita		800	1600	1980

(idem, PPP terms)				
Total Population, mid year (millions)	83.2	122.9	658.9	2459.8
Growth rate (percentage annual average 1965-99	3.4	2.7	2.6	2
Urban Population (percentage of population)	30.7	44	34.4	1.9
Poverty (percentage of population)				
National Headcount index	43	66.7		
Urban headcount Index	31.7	59.3		
Rural headcount index	49.6	71.7		
International Poverty Line		70.2		
Share of income on consumption				
Lowest quintile (percentage of income on consumption)		4.4		
Highest quintile (percentage of income on consumption)		55.7		
Social indicators				
Access to safe water (percentage of population0				
Total		57	55	76
Urban		81	82	88
Rural		39	41	70
Life expectancy at birth (years)				
Total	47	47	47	59
Male	46	46	46	58
Female	49	48	47	60
Mortality				
Infant (per thousand live birth)	90	84	91	76
Under 5 (per thousand live birth)	196	153	162	115
Immunization rate (percentage of children under 12 months)				
Measles	17	41	53	57
DPI	16	26	46	57
Child malnutrition (percentage under 5 years)		27		
Public expenditure				

Health (as percentage of GDP)		0.8	2.4	1.2
Education (as percentage of GDP)	1.1	0.6	3.6	3.4
Population below US$1 per day in percentage as at 2000: 70.2				
Source: World Bank, world Development Indicators, 2002, Nigeria FOS				

Table 15: Poverty incidence by States Including F.C.T (1980-1996)

States	1980	1985	1992	1996
Abia	14.4	33.1	49.9	56.2
Adamawa	33.4	47.2	44.1	65.5
Akwa-Ibom	10.2	41.9	45.5	66.9
Anambra	12.8	37.7	32.3	51.0
Bauchi	46.0	68.9	68.8	83.5
Bayelsa	7.2	44.4	43.4	44.3
Benue	23.6	42.9	40.8	64.2
Borno	26.4	50.1	49.7	66.9
Cross River	10.2	41.9	45.5	66.9
Delta	19.8	52.4	33.9	56.1
Ebonyi	12.8	37.7	32.3	51.0
Edo	19.8	52.4	33.9	56.1
Ekiti	24.9	47.3	46.6	71.6
Enugu	12.8	37.7	32.3	51.0
Gombe	46.0	68.9	68.8	83.5
Imo	14.4	33.1	49.9	56.2
Jigawa	37.5	54.0	38.7	71.0
Kaduna	44.7	58.5	32.0	67.7
Kano	37.5	55.0	38.7	71.0
Katsina	44.7	58.5	32.0	67.7
Kebbi	25.4	45.8	37.9	83.6
Kogi	33.3	39.3	60.8	75.5
Kwara	33.3	39.3	60.8	75.5
Lagos	26.4	42.6	48.1	53.0
Nassarawa	49.5	49.5	50.2	62.7
Niger	34.0	61.4	29.9	52.9
Ogun	20.0	56.0	36.3	69.9
Ondo	24.9	47.3	46.6	71.6
Osun	7.8	28.3	40.7	58.7
Oyo	7.8	28.3	40.7	58.7
Plateau	49.5	49.5	50.2	62.7
Rivers	7.2	44.4	43.4	77.3
Sokoto	25.4	45.8	37.9	83.6
Taraba	33.4	47.2	44.1	65.5
Yobe	26.4	50.1	49.7	66.9

Zamfara	33.4	45.8	37.9	83.6
F.C.T	-	-	27.6	53.0
All Nigeria	**28.1**	**46.3**	**42.7**	**65.7**

Source: National Poverty Eradication Programme (NAPEP) (2001) A Blueprint for The Schemes pp. 2-3

Table 16: List of Federal Government Projects & Programming for Poverty Eradication

S/N	Name of programme, Project, or Institution	Launching Date or Coverage Period	Nature of Activity	Coverage	Remarks
1	Agricultural Development Projects (ADP)	1975	Provision of decentralized opportunities and resources in agriculture to small holder farmers	Agricultural sector	Still existing as projects coordination unit (PCU)
2	Universal Primary Education	1975	To provide free primary education	Education sector	No longer exist
3	River Basin Development Authorities	1976	To undertake comprehensive development of both surface and underground water resources for various purposes (e.g. provision of irrigation, infrastructure, and control of floods soil erosion and watershed management	Agricultural sector	Still in place
4	Operation Feed the Nation	1976	To provide sufficient food for all Nigerians	Agricultural sector	The programme dovetailed into the Green Revolution programme
5	Agricultural Credit Guarantee scheme fund (ACGSF)	1978	To facilitate agricultural credit from commercial banks to farmers	Agricultural sector	Still in place
6	Green revolution	1979	To encourage the production of sufficient food and improved nutrition for all Nigerians	Agricultural sector	No longer exist
7	Directorate For Food, Roads and Rural Infrastructure (DFFRI)	1986	To coordinate and streamline all rural development activities in the country and to accelerate the pace of integrated rural development	Multi-sectoral	Functions have been transferred to the Federal Department of Rural Development
8	National Directorate for Employment (NDE)	1986	To provide skill development to secondary school leavers and graduates from tertiary institutions	Multi-sectoral	Still in place
9	Nigerian agricultural Insurance Cooperation	1987	Provision of insurance cover for business engaged in agricultural production	Agricultural sector	Still in lace
10	Better Life programme For Rural women	1987	Improvement of living condition of rural women	Multi-sectoral	Functions were absorbed by the family support programme

11	Raw Materials Research & Development Council	1987	To enhance sources of local raw materials	Multi-sectoral	Still in place
12	Strategic Grains Reserve (SGR)	1988	To mop up excess grains producing & make such available locally in terms of scarcity	Agricultural sector	Still in place
13	Guinea worm eradication programme	1988	To eradicate the prevalence of guinea worm infections	Health sector	Still in place
14	National commission for Nomadic Education (NCNE)	1989	Provide basic education for nomadic herdsmen and fishermen	Education sector	Still in place
15	Peoples Bank of Nigeria (PBN)	1989	To provide credit at low interest to encourage micro enterprises	Multi-sectoral	Absorbed by the Nigerian Agricultural Cooperative Development Bank (NACRDB)
16	National Primary health Care agency (NPHCA)	1990	To provide health delivery at the local level	Health sector	Still in place
17	Population activities Fund agency (PAFA)	1990	To encourage sound population growth management	Multi-sectoral	Still in place
18	National Board for community Banks (NBCB)	1991	To promote concessional micro-credit	Multi-sectoral	Still in place
19	National Agricultural Land Development Authority (NALDA)	1992	To provide strategic public support for land development, promote and support optimum utilization of rural resources, and support economic-size farm holdings	Agricultural sector	Functions have been transferred to Federal Department of rural Development
20	Family Economic Advancement Programme (FEAP)	1992	Provision of access to credit for micro entrepreneurs at the grassroots level; local raw material utilization, and development of indigenous technology	Multi-sectoral	Functions have been transferred to NACRDB
21	Family Support Programme	1994	To promote the welfare of women and children	Multi-sectoral	Functions were absorbed by the defunct FEAP
22	National Commission for Mass Literacy	1997	To promote adult literacy	Education sector	Functions have been transferred to the UBE programme
23	National Poverty eradication Programme	2000	To coordinate implementation of all FGN poverty eradication programmes	Multi-sectoral	Still in place
24	Nigerian Agricultural Cooperation and Rural Development Bank	2000	Provision of credit for the production, processing and marketing of agricultural products	Agricultural sector	This is essentially a merger of NACB, FEAP, and PBN
25	Universal Basic Education (UBE)	2000	Provide compulsory basic education for all up to the level of junior	Education sector	Ongoing

	Programme		secondary school year three JSS 3.		
26	Roll Back Malaria	2001	Eradicate harmful effects of malaria parasites	Health sector	Ongoing
27	HIV/AIDS	2001	Advocacy programme to phase out the spread of HIV/AIDS	Health sector	Ongoing
Source: Information Provided by various ministries and agencies of the FGN as documented by Strategy To Eradicate Poverty in Nigeria prepared by the FG Inter-Agency Guidance on the PRSP					

Table 17: Elements of Current Anti-Poverty Programmes & Projects of State Governments in Nigeria (July 2002)

Sector	Nature of Programmes & Projects
Agriculture	• School to Land Programmes to impart agricultural education • Interest free micro credit scheme for farmers • Supply of farm inputs to farmers • Development of pineapple processing • Support for castor oil project, food and fruit processing plants • Support for cashew plants • Encouragement of small holder farmers • Provision of farm inputs and implementations • Cow breeding programme • Songhai project • Animal traction programme • Small scale irrigation projects • Programme to facilitate farm land allocation • Farm land preparation programme • Sasakwa Global 2000 programme (for training of farmers on new crop technology and linking farmers to sources of improved seeds).
Rural Development	Integrated Rural development projects through: • Rural electrification • Rural and feeder road rehabilitation • Rural water and sanitation • Cottage hospital and rural medical centers
Transport	• Ailing transportation undertakings rehabilitation programme • Revolving car loan scheme to civil servants • Government guarantee revolving loan scheme for commercial bus transport operators • Supply to private sector operators, of motorcycle at subsidized rates • Introduction of state urban mass transit programme • Introduction of free Christmas transport programme for returning citizens resident outside the state
Health	• Free health and medical care programme • State hospital renovation and rehabilitation • Establishment of rural hospitals and medical centers
Housing	• Introduction of housing loan programme for civil servants
Women, Youths &	• Introduction of micro-credit facilities to promote women empowerment

the Disabled	• Provision of lockup shops • Loans for acquisition of sewing and fashion designing machines • Establishment of disabled persons rehabilitation centers • Setting up of vocational training centers for the handicapped • Promotion of youth empowerment through establishment of vocational training centers and provision of appropriate kits and tools at subsidized rates
Others	• Introduction of public works employment programme
Source: Information supplied by senior officials of state governments as documented by Strategy To Eradicate Poverty in Nigeria prepared by the FG Inter-Agency Guidance on the PRSP	

Table 18: Some Features of the NAPEP and the Draft PRSP

Key Features	National Poverty Eradication Programme (NAPEP) 2000	Poverty Reduction Strategy Programme (PRSP) 2002
Basic Goals	To have a people-centered approach to growth and development where every Nigerian is economically empowered toward having access to the basic needs of life.	To promote the living conditions of the poor. Partly by direct assistance to the possible extent through the broadening of opportunities for the poor to participate in economic and other legitimate activities.
	To coordinate other poverty alleviation programmes already in place	To improve the people well being.
Targets (Employment)	Creation of 2 million jobs per annum nation-wide through improved training, graduate employment scheme and improvements in the manufacturing sector	To attain at a minimum, the poverty reduction objectives adopted by the international community (MDG)
Health	To improve the health status by attaining a health care that would permit all Nigerians live socially and economically productive (primary health care facilities to a level of 100%, free treatment for all diseases of the poor, immunization to 100%, treatment to communicable diseases in all the LGA)	To institute safety nets aimed at protecting the poor against transitional adverse changes in the key determinants of economic well being.
Education	To improve the access of all Nigerians to good quality education (Adult literacy from 51 to 80%, primary school enrolment to 100%, secondary school enrolment to 100% and tertiary school enrolment to 70%)	Improving and streamlining the Universal Basic Education (UBE), the Primary Health Care Delivery (PHC) and other similar schemes.
Economic Growth	To achieve a sustainable annual growth rate of 6-10% of Gross Domestic product (GDP).	Increasing the productivity of the poor through the accessibility to capital provision.
Water supply/Electrification	To improve the access of the poor to portable water and sanitation facilities in both rural and urban areas (rural/urban water supply of 100%, rural/urban electrification of 80/100%)	
Self-Employment	Resettlement of at least 100,000 per tertiary graduates through self-employment scheme.	Contributing to improvement in living conditions through carefully targeted, cost effective and well delivered

		assistance programmes
Human Rights	To ensure the right to life, liberty and social protection and participation in the nation's political process for all Nigerians irrespective of ethnicity, religion, gender or race.	Encouraging the participation of the poor in decision making especially issues affecting their lives.
Discipline	Recovery of most of the loans earlier given out by government institutions	.
Inflation	Achievement of price stability and inflation rate reduction of not more than 3 to 5%, etc.	
nstrum ents	Government Finances, Financial Institutions, Community Based Organization, Private sector, etc	Public Finance, Financial Institutions, Private sector, etc

Source: *Strategy to Eradicate Poverty in Nigeria (2002) by the FG Inter-Agency Guidance Committee o the PRSP and Nigeria: Targeted Poverty Reduction (2000) presented by Inter-ministerial technical Committee on Poverty Reduction for Ministry of Finance Abuja. NAPEP (2001) Area of International Assistance page 45-46.*

Table 19: Selected petroleum statistics, 1997-2002

	1997	1998	1999	2000	2001	Jun-02
production and exports	**Millions of barrels per day**					
production	2.271	2.231	2.11	2.261	2.238	1.837
Domestic consumption	0.268	0.268	-	-	0.389	0.441
Stock changes	0	0	-	-	-	-
Exports	2.003	1.955	1.844	1.952	1.849	1.396
World Price	**U.S. Dollars per barrel**					
Unit value of exports	19.8	12.9	17.62	28	-	-
U.K. Brent, average price	19.12	12.72	17.7	28.31	24.43	22.19
	in Millions of US dollars					
Export values	14850	9218	11943	20151	16574	-
domestic petroleum product prices	in Naira per liter unless otherwise indicated					
Crude oil (Naira per barrel)	374	374	807.5	950	950	1980
Premium motor spirits	11	11	20	22	22	26
Kerosene	6	6	17	17	17	24
Gas oil/diesel	9	9	19	21	21	26
Fuel oil	7	7	12.4	-		
Liquefied Petroleum gas (naira per Kilogram)	4	35.1	26.05	-		
Aviation spirits	8	8	19	-		
Domestic consumption of petroleum products	in Thousands of Metric Tons					
Premium motor spirits	3961.8	3530.2	3153.6	4799.6	5397.6	3159.7
Kerosene	1640.5	1266.4	1217.4	1217	1744.4	758.9

Gas oil/diesel	2650.9	1809.9	2059.9	2195.3	2179.2	944.3
Fuel oil (High and low "Pour")	2476.9	1580.5	2863.9	-	174.4	77.4
Liquefied Natural gas	93.4	66.1	37.6	-	13.8	-
Aviation spirits	460.5	26.2	32.4	-	-	-

Sources: Central Bank of Nigeria; Nigerian National petroleum Corporation; and IMF staff estimates

Box 1. Oil Revenue in Nigeria

Nigeria's fiscal revenue relies heavily on the oil sector. This reliance has continued unabated since the mid-1970s, despite numerous efforts to diversify the revenue base. As a share of total government revenue, oil revenue increased from 82 percent in 1986-89 to 84 percent in 1990-93, before dropping to 75 percent in 1994, largely on account of the fall in oil export prices and the introduction of the value-added tax. More important for 1994, the substantially over-valued official exchange rate affected oil revenue (in naira terms) significantly.

Oil revenues derive from the operations of the Nigerian National Petroleum Company (NNPC), and its joint venture partners. The NNPC's contribution to the budget consists of net export proceeds and the domestic retail sales of petroleum products. The joint venture partners pay a royalty to the federal government of 19.6 percent of total export and a profit tax of 85 percent. They are permitted to withhold certain amounts from their net export proceeds in the form of "national" costs and guaranteed profits, both of which are denominated in U.S dollars per barrel. The partner companies settle their actual tax liability to the Federal Government at the end of each company's fiscal year. Through the end of 1994, the NNPC was permitted to sell a specified number of barrels each day to cover its dollar-denominated costs ("dollar cash calls") and to help finance its capital budget ("dedicated oil"). A certain number of barrels per day were also sold on behalf of the Federal Government, which accrued directly to an offshore account. The NNPC's net export proceeds (excluding dollar cash and all dedicated oil) were deposited in the Central Bank's account at the federal reserve Bank of New York and the naira counterpart was deposited into the federal government's "Royalty Account" at the Central Bank. In addition, the NNPC generates revenue from the domestic retail sales of petroleum products and its expected to pay the Federal Government both a national cost for the crude oil it uses for domestic refining (at a transfer profits price of 183 naira per barrel). In the 1991-94 period, the NNPC incurred losses on its domestic operations, as a result of the low retail prices set by the government, and did not pay the federal government for crude oil. In October 1994, the retail price of gasoline was raised substantially (from 3.25 naira to 11 naira per litre), and the NNPC has since been able to pay a higher transfer price (US$17 per barrel) to the federal government.

The system for collecting oil revenue was modified substantially in 1995, when the federal government closed the off-budget dedicated accounts and began depositing the total amount of NNPC export proceeds directly into a Federal reserve Bank account. From this account, the Government contribution to operating costs of the oil industry ("first charges" against the bud-profits from domestic sales have been transferred to the Petroleum Trust Fund, which was managed outside the Federal Government budget. The Petroleum Trust Fund resources were used for priority infrastructure and social sector projects. The Obasanjo administration has disbanded the Petroleum Trust Fund.

Source: Moser et al, (1997, p. 22)

Box 2: The dilemma of a nation – to save or not to save
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Severe and regular external shocks have brought to the forefront the need of the country with only one exportable resource to make room for savings. In this respect, there is not much difference between a man with only one source of income and a nation with one. However, the history of Nigeria is one of inability to bring itself to save any significant part of her resources in any form of pooled fund. Several efforts made by different administration to save some part of the country's revenue at any point in time have all failed. The last of such efforts is the Petroleum Trust Fund, a special pool funded from *domestic* sale receipts and established in 1994 as part of an implicit *quid pro quo* for an increase in oil prices. Part of the problem of saving income in a trust fund arises out of the structure of the Nigerian nation. Each constituent part of the country regards the other with suspicion. The different levels of government are more concerned with meeting immediate needs of their constituencies (and interest parties) than in what becomes of the country. Deep within, many of the states do not even see the Nigerian structure lasting too long. As such, each group attempts to grab as much from the entity as it can afford. This is however bad news as much as it does not make any room for saving by the centre.
Although the PTF did succeed in making many investments in Nigeria's schools, hospitals and roads, the fund was shut-down in 1999 and was judged only a partial success. Many sections of the country decried the marginalization of their regions while some saw the PTF as a means of taking what belongs to the oil producing states and sharing among those that contribute nothing to the resources of the nation. Despite the best of intentions, the fund was perceived by many as a parallel government with little accountability and an instrument for political enrichment to a select few. Part of the arguments seem right as the PTF for all its years of existence did not have clearly spelt out working criteria and it therefore seemingly distributed its projects arbitrarily to the regions and states.

While the above might have constituted a problem, the fund was not meant for safe-keeping in the first place. It merely served as avenue to distribute the resources from oil. In effect the country is without a fund meant to save oil revenue for tomorrow's use. The recent Supreme Court Ruling seems to have contributed to aggravating this problem. Part of the ruling is that the federal government has NO right to withhold or "save" any part of the funds accruable to the federation account without the consent of the constituent states. It is very difficult to secure such mandates from the states for obvious reasons. For one, there is mutual distrust between the states and federal government. Secondly, there is no guarantee that the federal government is itself in the best position to handle such tasks in impeccable ways – the history of the government at the centre is already not very attractive. Its complexity and non-transparency has produced unforeseen and irrational distributions of oil revenues. There is also the problem of entrenched interests in the states which are currently agitating for devolution of more revenue powers to themselves. The result is that not only is the country without a saving mechanism (current income remains current potential consumption), leaving it vulnerable to external shocks, it does not have any plans to have one in the near future.
Sources: World Bank, 2002;
Addison, 2002

Box 3: History of Intergovernmental Fiscal Transfers in Nigeria

Intergovernmental transfers are made from the federation account, which consist of oil revenues, the company income tax and customs and excise duties. Transfers are meant to address both vertical and horizontal imbalances. Over the years, the principles of revenue sharing have reflected political changes; at times, favoring greater centralization of revenues, while at other times they have provided more resources for states, in particular, based on the derivation principle. Changes to revenue sharing have typically followed the reports of commission or presidential decrees. The main highlights governing revenue sharing over the years are as follows:

Pre-independence (1946-59). While Nigeria was still following a unitary system, in 1946, the Phillipson Commission determined revenue allocation among the three regions using the criteria of derivation and "even development". Between 1951 and 1959, the Hicks-Philipson and Chicks Commissions modified these criteria to include need, fiscal autonomy and national interest.

Post independence (1959-68). This period was characterized by three main revenue allocation commissions: Raisman (1958, Binns (1964) and Dinns (1968). The allocation criteria were based on the continuity of existing levels of service, responsibilities of each regional government, population (added to decree in 1967), balanced development, and derivation. Regarding derivation, the Raisman commission recommended that 50 percent of revenues should go to the region of origin.

Military/oil boom period (1968-80). Changes toi the allocation formula were made mainly by decrees. The country was further reorganized into 12 states. In general, derivation suffered a setback as it was seen as accentuating regional imbalance. In 1970, under a decree, 50 percent of oil revenue was allocated to the distributive pool account, 45 percent to states based on derivation, and 5 percent to the federal government. In 1971, offshore oil revenues were allocated to the federal government, and in 1975 (again under decree) onshore revenues to the states of origin were further reduced to 20 percent.

1980-99. In 1980, the Okigbo Commission revised the revenue-sharing formula as follows: 55 percent to the federal government, 30 percent to states, 8 percent to local governments and 7 percent to special funds. Horizontal allocations among states were determined with population and a minimum standard for national integration each receiving a weight of 40 percent; a social development factor, 15 percent; and an internal revenue effort, 5 percent. The Revenue Act of 1982 modified the sharing formula slightly, giving states and local governments larger shares at the expense of the special funds

1999 Constitution. The allocation based on the derivation principle was set at 13 percent of oil revenues. The basic shares were as follows: 48.5 percent to the federal government, 24 percent to states, 20 percent to local governments, and 7.5 percent to special funds. The constitution also provided for grants –in –aid to minimize disparities; in social services among states. Transfers to states were to be based on ten factors.

April 2002 Supreme Court ruling. The deduction of "first charges" (e.g. external debt service, "cash calls" to cover the government's share in the production costs of oil, and expenditures on NNPC priority projects) before the sharing of oil revenues was ruled unconstitutional. Offshore oil proceeds were ruled to belong to the federal government. Since then, oil revenue for sharing is net of the production costs of oil, and debt service is no longer treated as a first charge. The states have been called upon to meet their share of external debt service (estimated at 24 percent of the total). The federation a account has been distributed as follows: 54.68 percent to the federal government: 24.72 to states; 20.6 percent to local governments. The federal capital territory and ecological fund would be funded directly by the federal government.

October 2002 National Assembly Legislative Changes. The natural derivation grant had been calculated at 60 percent of total oil production (the assumed onshore proportion of production) in October, the National Assembly enacted legislation that would allow the derivation grant to be calculated on the basis of 100 percent of oil production

Box 4 :Dealing With Corruption In Nigeria

Corruption is the bane of development in Africa. According to a study by the African Union, corruption is estimated to cost Africa more than $50 billion per annum, and African countries are working hard to develop a Convention on anti-corruption.

For Nigeria, it is difficult to discuss the failings of any aspect of its development without copious references to the 'C' word--- Corruption. The Transparency International has consistently rated Nigeria at the bottom of the global corruption index--- as one of the most corrupt countries in the world. The World Bank identified corruption as the single greatest obstacles to economic and social development that undermines development by distorting the rule of law and weakens the institutional foundation on which economic growth depends. The harmful effects of corruption are especially severe on the poor, who are hardest hit by economic decline, are most reliant on the provision of public services, and are least capable of paying the extra costs associated with bribery, fraud, and the misappropriation of economic privileges. Corruption sabotages policies and programs that aim to reduce poverty, so attacking corruption is critical to the achievement of the overarching goal of poverty reduction.

Ideas on how to deal with corruption are many and varied. The World Bank study suggests that the following might help:

- *Increasing Political Accountability*: The key elements of this entail reforms that affect political competition, party financing, transparency, and rules and regulations.
- *Strengthening Civil Society Participation* : This involves civil society's role in fighting corruption; strengthening the role of the media; empowering civil society.
- *Creating a Competitive Private Sector* : Elements of this include economic policy liberalization; enhancing greater competition; regulatory reform; good corporate governance; promoting business association, trade unions, and concerned parties; promoting transnational cooperation.
- *Institutional restraints on power* : including independent and effective judiciary; anticorruption legislation; independent prosecution and enforcement; audit organization; legislative oversight;
- *Improving public sector management:* A meritoric civil service with monetized, adequate pay; enhancing transparency and accountability in budget management;

enhancing transparency and accountability in tax and custom duties; policy reforms in sectoral service delivery; decentralization with accountability;

In Nigeria, several institutions--- Code of Conduct Bureau, Independent Corrupt Practices Commission (ICPC), and several programs—War Against Indiscipline (WAI); War Against Indiscipline and Corruption (WAI-C), Failed Banks Tribunal, Failed Contracts Tribunal, etc have been launched to campaign against corruption and to prosecute corrupt practices. Several proposals abound about dealing with the menace, including: pubic enlightenment; mass literacy; severe sanctions; exposure of unjustified wealth; privatization of public parastatals; emphasis and reward of merit/productivity; improved judiciary; overhauling the civil service system; stigmatizing corruption; preventive and corrective measures; societal reform and incentives; constant publication of names of corrupt persons;

International Collective Action

Corruption cannot be tackled only at the national level. International collective actions are required, and there are increasing efforts in that direction.

Council of Europe Criminal Law Convention on Corruption (European Treaty Series No. 173). Open for signature on January 27, 1999, the Convention requires signatories to make the following practices criminal offenses: bribery of public officials, trading in influence, laundering of proceeds of corruption, and other common forms of corruption. The Convention also provides for the investigation and prosecution of corruption, protection of persons collaborating with investigating or prosecuting authorities, and the adoption of measures on gathering evidence and confiscating proceeds. It provides for international cooperation—mutual assistance, extradition, and the provision of information—in the investigation and prosecution of corruption. A novel element of this convention is active monitoring by the Group of States against Corruption (GRECO).

Council of Europe Civil Law Convention on Corruption (European Treaty Series No. 174). Open for signature on November 4, 1999, this Convention is the civil law counterpart of the Council of Europe's Criminal Law Convention on Corruption. It is the first attempt to define common principles and rules at an international level in the field of civil law and corruption.

The OECD Convention on Cambridge Bribery of Foreign Public Officials in International Business Transactions. Patterned on the longstanding U.S. Foreign Corrupt Practices Act and effective on February 15, 1999, this Convention commits 34 signatory countries to adopt common rules to punish companies and individuals who engage in bribery. The Convention makes it a crime to offer, promise, or give a bribe to a foreign public official in order to obtain or retain business. A related text effectively prohibits tax deductibility for bribe payments made to foreign officials. Twenty countries have already changed their domestic laws in accordance with the Convention.

The Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. This Convention requires parties to the agreement to ensure that domestic law permits the seizure of property and bank records or transaction documents connected with suspected criminal activity, and criminalizes the acquisition, possession, concealment, or transfer of property one suspects as being involved in criminal activity. It further obliges signatory states to enforce confiscation orders made by a court of another signatory state, and to designate a central authority responsible for the communication with, and execution of orders of, other signatory states.

The E.U. Council Directive on Prevention of the Use of the Financial System for the Purpose of Money Laundering. This Directive requires member states to stop transactions in which money laundering is suspected and obliges financial institutions in their countries to obtain identity documentation from clients before opening accounts and to provide evidence of suspicious transactions to authorities.

Sources: The World Bank (2000). Based on data from transition economies from the Business Environment and Enterprise performance Survey (BEEPS), The World Bank (2000), Anti-Corruption in Transition. A Contribution to the Debate, Washington, D.C, pp 47-52 and Broadman and Recanatini (2000).

- Source: The World Bank Group, Governance and public Sector Reform > Anti-Corruption.